HEALTH SERVICES AND DEVELOPMENT AGENCY
DECEMBER 14, 2016
APPLICATION SUMMARY

NAME OF PROJECT:	Unicoi County Memorial Hospital
PROJECT NUMBER:	CN1608-030
ADDRESS:	Temple Hill Road Erwin (Unicoi County), TN 37650
LEGAL OWNER:	Mountain States Health Alliance 400 N. State of Franklin Road Johnson City (Washington County), TN 37604
OPERATING ENTITY:	N/A
CONTACT PERSON:	Allison Rogers (423) 302-3378
DATE FILED:	August 15, 2016
PROJECT COST:	$19,999,141
FINANCING:	Cash Reserves
PURPOSE FOR FILING:	Relocation and replacement of an existing 48 licensed bed hospital with a facility that includes 10 acute beds and a 10 treatment room emergency department

DESCRIPTION:

Unicoi County Memorial Hospital is requesting approval to relocate and replace the current 48 bed hospital located at 100 Greenway Circle, Erwin (Unicoi County) with a new facility that will include 10 acute care beds and a 10 treatment room emergency department at an unaddressed site on Temple Hill Road, Erwin (Unicoi County), which is approximately 2.5 miles from the current facility.

SERVICE SPECIFIC CRITERIA AND STANDARD REVIEW

CONSTRUCTION, RENOVATION, EXPANSION, AND REPLACEMENT OF HEALTH CARE INSTITUTIONS

1. **For relocation or replacement of an existing licensed health care institution:**

   a. The applicant should provide plans which include costs for both renovation and relocation, demonstrating the strengths and weaknesses of each alternative

   The current facility was constructed in 1953 and is designed mainly as an inpatient facility. The layout of the facility is not designed to accommodate the shift to outpatient services resulting in large sections of the current facility significantly underutilized. Construction professionals believe that the cost to renovate the current facility to modern standards and achieve similar operational efficiencies as the new hospital would result in a greater cost than that of a newly constructed facility. Renovation of the facility would likely result in closure of the facility during construction resulting in patients having to seek care at facilities outside the county.

   It appears that this criterion has been met.

   b. The applicant should demonstrate that there is an acceptable existing or projected future demand for the proposed project.

   The facility will be "right-sized" by reducing the licensed bed complement from 48 to 10, which is more consistent with current demand for inpatient services. The facility will include space for a 10 treatment room emergency department and space for outpatient services such as various diagnostic imaging modalities and therapy services.

   It appears that this criterion has been met.

STAFF SUMMARY

Note to Agency members: This staff summary is a synopsis of the original application and supplemental responses submitted by the applicant. Any HSDA Staff comments will be presented as a "Note to Agency members" in bold italic.

Application Synopsis

Unicoi County Memorial Hospital (UCMH) proposes to relocate and replace the current 48 bed acute care hospital with a 10 bed acute care hospital approximately 2.5 miles from the current site. The newly constructed hospital will include a 10 treatment room emergency department. The current facility is located in a congested downtown area and will relocate to a site which is 0.4 mile from an interstate exit. The facility does not meet the criteria to achieve critical access hospital status. The hospital will not provide surgical services but will provide a number of outpatient services to include diagnostic imaging, rehabilitation services (physical, occupational, and speech therapy), respiratory services, and laboratory services.

If the proposed project is approved and Mountain States Health Alliance (MSHA) ceases to use the existing building for healthcare purposes, both the land and building will return to the control of Unicoi Memorial Hospital, Inc., the non-profit entity that owned the hospital and land prior to MHSA's purchase of the building in 2013.

An overview of the project is provided on pages 6-13 of the original application and augmented in the first supplemental response.

Facility Information

- The proposed facility will be located at an unaddressed site on Temple Hill Road in Erwin (Unicoi County). This site is approximately 2.5 miles from then site of the current hospital and only 0.4 miles from an interstate (I-26) exit.
- The proposed facility will contain 41,500 square feet. The facility will contain 10 medical beds occupying 6,278 square feet. There will be a 10 treatment room emergency department containing 7,134 square feet. Other ancillary services such as medical imaging, clinical lab, pharmacy, and outpatient clinic will contain 10,229 square feet.
- The outpatient services that will be provided in the new facility will include general radiology, MRI, CT, ultrasound, nuclear medicine, mammography, bone densitometry, non-invasive procedures (arterial and venous studies), invasive procedures (thoracentesis and paracentesis), cardiac calcium scoring, rehabilitation services (physical, occupational,

and speech therapy), sleep lab (Continuation of this service will be re-evaluated), respiratory services, and laboratory.

- The vision for the facility is for it to be a community resource for healthcare, built with a "green" effort in mind, designed with an emphasis on Patient-Centered Care, and designed employing the process of evidence based design and evidence based medicine.
- The building is designed with flexibility of systems and space so that future expansion to meet patient needs could be easily accommodated.
- UCMH is currently a 48 licensed bed acute care hospital. The Joint Annual Report for 2015 indicates the applicant staffs 11 beds. Licensed bed occupancy was 16.2% and staffed bed occupancy was 70.5%.

The following provides the Department of Health's definition of the two bed categories pertaining to occupancy information provided in the Joint Annual Reports:

- *Licensed Beds - The maximum number of beds authorized by the appropriate state licensing (certifying) agency or regulated by a federal agency. This figure is broken down into adult and pediatric beds and licensed bassinets (neonatal intensive or intermediate care bassinets).*
- *Staffed Beds - The total number of adult and pediatric beds set up, staffed and in use at the end of the reporting period. This number should be less than or equal to the number of licensed beds.*

Ownership

- UCMH became a part of MSHA in November 2013, when MSHA acquired 100% ownership of UCMH. As part of the purchase agreement, MSHA committed to building a new hospital. Additional requirements of the agreement included provision of acute care services and the availability of at least 20 beds throughout the facility. The proposed project meets those requirements.
- MSHA includes thirteen hospitals located in Tennessee, Virginia, Kentucky, and North Carolina; and operates urgent care centers, outpatient facilities, laboratory and radiology services, physician practices, long-term and rehabilitation facilities, and community based prevention and educational activities.

NEED

Project Need

The applicant provides the following justification in the application:

- The original hospital was built in 1953 and at the end of its lifespan. In the first supplemental response the applicant noted that the consensus of all construction professionals who evaluated the building believed that the cost to renovate the building to modern standards and achieve similar operational facilities as the new hospital would likely be greater than new construction. Additionally, to build a replacement facility on the current site would result in the current facility having to be shut down completely during construction resulting in the transfer of all patients to out-of-county facilities.
- The current facility is located in downtown Erwin which is a heavily congested area near the county high school and middle school, which makes it difficult for EMS and patients to access the facility especially in emergent situations. The proposed project will relocate the hospital 2.5 miles to a site away from the downtown and within 0.4 miles to an interstate exit.
- The current facility staffs 11 of its 48 licensed beds and has an average daily census of 5 inpatients. The current facility is set up primarily for inpatient care. With the continued shift to outpatient services large areas of the current facility will remain mainly unused unless completely renovated to address the growing demand of outpatient services. By decreasing the licensed beds to 10 in the proposed facility more space can be allocated to growing outpatient services such as diagnostic imaging and rehabilitation services. In FY 2016 UCMH treated 25,982 outpatients compared to 500 admissions and 344 observation patients on the inpatient side of the business. Additionally nearly 83% of UCMH's gross patient revenue was generated from outpatient services.

Service Area Demographics

UCMH's declared service area is Unicoi County.

- The total population of Unicoi County is estimated at 18,847 residents in Year 2016 increasing by approximately 1.6% to 19,150 residents in Year 2020.
- The overall Tennessee statewide population is projected to grow by 4.3% from 2016 to 2020.
- The Age 65+ population of Unicoi County is estimated at 4,491 residents in Year 2016 increasing by approximately 13.2% to 5,086 residents in Year 2020.
- The Age 65+ Tennessee statewide population is projected to grow by 16.0% from 2016 to 2020.
- The Age 65+ population in Unicoi County is expected to be equivalent to 26.6% of the total population. This compares to 17.8% statewide.

- The latest 2016 percentage of the Unicoi County population enrolled in the TennCare program is approximately 22.9%. The statewide percentage is the same.

Service Area/Applicant Historical and Projected Utilization
UCMH is the only hospital in Unicoi County.

The following two tables will display inpatient and outpatient historical and projected utilization for Year One (2020) and Year Two (2021) of the proposed project.

Unicoi County Memorial Hospital
Inpatient Historical and Projected Utilization

UCMH	Year 2013	Year 2014	Year 2015	Year 2016	'13-15 % Change	Year 1-2020	Year 2-2021
Admission	1,059	962	720	500	-52.7%	605	593
Patient Days	4,336	3,898	2,830	1,668	-61.5%	2,004	1,927
% Occupancy	24.7%	22.2%	16.2%	9.5%		54.9%	52.7%

Source: Hospital JAR and CN1608-030

The table above reflects the following:

- Inpatient admission declined 52.7% between 2013 and 2016 from 1,059 to 500. During the first year after project completion the applicant projects 605 admissions declining slightly to 593 in the second year.
- Inpatient days declined 61.5% between 2013 and 2016 from 4,336 to 1,668. During the first year after project completion the applicant projects 2,044 inpatient days declining slightly to 1,927 in the second year.
- Licensed occupancy on 48 beds declined from 24.7% in 2013 to 9.5% in 2016. During the first year after project completion the applicant projects 54.9% licensed occupancy on 10 beds declining slightly to 52.7% in the second year.
- The applicant provides a table in the first supplemental response indicating that 65.3% of Unicoi County residents went to Washington County hospitals for inpatient care in 2014 followed by 32% remaining in Unicoi County.

Note to Agency members: In Supplemental #1, the applicant provided monthly average daily inpatient census (ADC) for FY 2016 which produced results of monthly ADC in the range of 3 to 6. The applicant was asked further how many days in FY 2016 that inpatient census was 10 or greater. The applicant responded in Supplemental #2 that in FY16 there were 33 days where inpatient census was 10 or greater; however only 14 of those days was the census greater than 10. The applicant was asked to describe the plan where inpatient census

was 10 in the proposed facility and patients presenting in the emergency department were in need of an inpatient bed. The applicant does not believe the inpatient census will exceed 10 based upon current trends; however in the scenario where all ten beds were occupied the applicant presented the following three options for consideration:

1.Transfer patients to Franklin Woods Community Hospital and Johnson City Medical Center in Washington County
2.Add a bed through the 10% provision now available per PC 1043.
3.If inpatient volumes continued to be at 10 ADC there is ample space for future development of additional beds.

Unicoi County Memorial Hospital
Outpatient Historical and Projected Utilization

UCMH-Visit Type	Year 2014	Year 2015	Year 2016	'14-15 % Change	Year 1-2020	Year 2-2021
Emergency	8,154	7,897	7,626	-6.5%	8,186	8,350
Lab	8,159	11,481	10,049	+23.2%	10,551	10,815
Physical Therapy	473	1,112	1,413	+198.7%	1,484	1,521
Respiratory	81	103	60	-25.9%	63	65
Radiology	3,482	5,473	6,135	+76.2%	6,442	6,506
Observation Days	611	489	389	-36.3%	476	490

Source: CN1608-030

The table above reflects the following:

- Several outpatient/ancillary services have grown between 2014 and 2016 and are expected to continue growing after the replacement facility is completed. These services include Physical Therapy (almost 200% growth between 2014 and 2016), Radiology (over 76% growth between 2014 and 2016), and Laboratory Services (over 23% growth between 2014 and2016).
- Even though emergency department visits declined 6.5% between 2014 and 2016, emergency department visits are expected to reach and surpass 2014 visits after the new facility is in place.

ECONOMIC FEASIBILITY

Project Cost

Major costs are:

- Construction-$11,810,531 or 59.1% of total project cost.
- Fixed Equipment-$2,917,271 or 14.6% of total project cost
- For other details on Project Cost, see the Project Cost Chart on page 30 of the original application.

- Average total construction cost is expected to be $284.59 per square foot for new construction, which is between the first quartile of $244.85 and the median $308.43 of previously approved hospital projects from 2013-2015.

Statewide Hospital Construction Cost per Square Foot 2013-2015

	Renovated Construction	New Construction	Total Construction
1st Quartile	$160.66/sq. ft.	$244.85/sq. ft.	$196.62/sq. ft.
Median	$223.91/sq. ft.	$308.43/sq. ft.	$249.67/sq. ft.
3rd Quartile	$297.82/sq. ft.	$374.32/sq. ft.	$330.50/sq. ft.

Source: HSDA Applicant's Toolbox

Financing

The source of funding for the project is cash reserves from Mountain States Health Alliance.

- An August 10, 2016 letter signed by the Executive Senior Vice President/Chief Financial Officer, Lynn Krutak, certified that Mountain States Health Alliance has sufficient cash to fund the proposed project.
- Review of Mountain States Health Alliance audited consolidated balance sheet ending June 30, 2015 revealed cash and cash equivalents of $79,714,000, total current assets of $328,823,000 and current liabilities of $235,593 for a current ratio of 1.40 to 1.0.

Note to Agency Members: Current ratio is a measure of liquidity and is the ratio of current assets to current liabilities which measures the ability of an entity to cover its current liabilities with its existing current assets. A ratio of 1:1 would be required to have the minimum amount of assets needed to cover current liabilities.

Historical Data Chart

- According to the Historical Data Chart UCMH has experienced net operating losses for each of the three most recent years as follows: ($872,312) for 2014; ($6,401,090) for 2015; and ($5,083,029) for 2016.
- Average Annual Net Operating Income (NOI) was unfavorable at approximately -60.3% of annual net operating revenue for the year 2016.

Projected Data Chart

- The Projected Data Chart indicates that UCMH will continue to experience net operating losses during each of the first two years of operation: ($3,379,696) in Year 2020 and ($3,548,661) in Year 2021.
- The proposed facility is not expected to breakeven in the foreseeable future but will perform better financially than the current facility. MSHA

is committed to ensuring the successful operation of UCMH, which would ultimately close without the support of MSHA. MSHA will continue to support UCMH financially through the availability of cash from earnings of the system as a whole.

Charges

In Year One of the proposed project, the total average charge per patient day is as follows:

Average Gross Charge

- $26,602

Average Deduction from Operating Revenue

- $22,579

Average Net Charge

- $4,023

Payor Mix

- The applicant indicates it has contracts with all TennCare MCOs available to its service area population: UHC Community Plan, Blue Care, and AmeriGroup.
- The applicant's projected payor mix in Year 1 of the project is shown in the table below:

Unicoi County Memorial Hospital
Service Payor Mix, Year 1

Payor Source	Gross Revenue Year 1	as a % of Gross Revenue Year 1
Medicare/Managed Medicare	$28,414,708	53.3%
TennCare/Medicaid	$6,770,484	12.7%
Commercial/Other	$14,717,266	27.6%
Charity/Self-Pay	$3,408,438	6.4%
Total	$53,310,896	100%

Source: CN1601-004

PROVIDE HEALTHCARE THAT MEETS APPROPRIATE QUALITY STANDARDS

Licensure/Accreditation

- Unicoi County Memorial Hospital is licensed by the Department of Health.

Certification

- The applicant is certified by Medicare and Medicaid/TennCare.

Accreditation

- UCMH is accredited by The Joint Commission.
- A copy of the latest Joint Commission Official Accreditation Report Summary Statement dated 7/20/16 is attached. UCMH is compliant with all of the listed requirements for improvement.

CONTRIBUTION TO THE ORDERLY DEVLOPMENT OF HEALTHCARE

Agreements

- UCMH will continue to work closely with other healthcare providers in the region to include other Mountain States Alliance hospitals, East Tennessee State University and the James H. Quillen College of Medicine, local nursing homes, clinics and other healthcare providers.
- UCMH also has transfer agreements with Wellmont Health System hospitals and Laughlin Memorial Hospital in Greeneville.

Impact on Existing Providers

- UCMH is the only acute care provider in Unicoi County. The proposed replacement facility will be designed to realign UCMH with the needs of the community

Staffing

- UCMH's current and proposed staffing pattern is displayed in the table below:

Position	UCMH Current	UCMH Replacement
Certified Nursing Assistant	1.9	1.9
Echo-vascular Tech	0.1	0.1
Medical Lab Technician	6.8	6.8
Medical Technologist	4.1	3.6
Monitor Technician	6.5	0.0
MRI Technologist	1.0	1.0
Nuclear Medicine Tech	0.0	1.0
Patient Care Partner	4.7	4.7
Pharmacist	1.6	1.6
Pharmacy Tech	0.9	0.9
Phlebotomist	2.5	2.0
Physical Therapist	3.0	3.0
Polysomnographer	0.7	0.0
Physical Therapy Assistant	0.9	0.9
Radiologic Technologist	8.4	8.4
Respiratory Therapist	3.8	4.8
Registered Nurse	28.7	29.8
Speech Therapist	0.1	0.1
Ultrasound Technologist	1.0	1.0
Total	**76.7**	**71.6**

Source: CN1606-024

- The monitor technician position is being eliminated due to consolidation of telemetry services with Sycamore Shoals Hospital.
- The polysomnographer position is being proposed for elimination because the sleep lab services are being considered for elimination.
- The addition of the nuclear medicine tech is due to the plans to introduce nuclear medicine services to UCMH.

Should the Agency vote to approve this project, the CON would expire in three years.

Corporate documentation and warranty deed information are on file at the Agency office and will be available at the Agency meeting.

CERTIFICATE OF NEED INFORMATION FOR THE APPLICANT:

There are no other Letters of Intent, pending applications, denied applications, or outstanding Certificates of Need for this applicant.
Mountain States Alliance has a financial interest in this project and the following:

Pending Applications

Johnson City Medical Center, CN1610-035, has a pending application that will be heard on the ***Consent Calendar*** at the December 14, 2016 Agency meeting for the addition of an MRI unit. The estimated project cost is **$2,008,108.**

LP Johnson City, LLC, 1609-032, has a pending application that will be heard at the December 14, 2016 Agency meeting for the replacement of 34 bed Princeton Transitional Care and 13 bed Franklin Transitional Care with a new 47 bed nursing home to be located on the campus of what was formerly Northside Hospital. The estimated project cost is **$8,571,736.**

Outstanding Certificates of Need

East Tennessee Healthcare Holdings, Inc., CN1605-021A, has an outstanding Certificate of Need that will expire on October 1, 2018. The project was approved at the August 24, 2016 Agency meeting for the establishment of a nonresidential substitution-based treatment center that provides opiate addiction treatment. Mountain States Health Alliance (MSHA) and East Tennessee State University (ETSU) have formed the not-for-profit Corporation ETHHI to be licensed by the Department of Mental Health and Substance Abuse Services (TDMHSAS). The estimated project cost is **$1,747,777**. *Project Status: This project was recently approved.*

CERTIFICATE OF NEED INFORMATION FOR OTHER FACILITIES IN THE SERVICE AREA:

There are no Letters of Intent, denied applications, pending applications or outstanding Certificates of Need for other health care organizations in the service area proposing this type of service.

PLEASE REFER TO THE REPORT BY THE DEPARTMENT OF HEALTH, DIVISION OF HEALTH STATISTICS, FOR A DETAILED ANALYSIS OF THE STATUTORY CRITERIA OF NEED, ECONOMIC FEASIBILITY, HEALTH CARE THAT MEETS APPROPRIATE QUALITY STANDARDS, AND CONTRIBUTION TO THE ORDERLY DEVELOPMENT OF HEALTH CARE IN THE AREA FOR THIS PROJECT. THAT REPORT IS ATTACHED TO THIS SUMMARY IMMEDIATELY FOLLOWING THE COLOR DIVIDER PAGE.

MAF (11/16/16)

LETTER OF INTENT

State of Tennessee
Health Services and Development Agency
Andrew Jackson Building, 9th Floor
502 Deaderick Street
Nashville, TN 37243
www.tn.gov/hsda Phone: 615-741-2364 Fax: 615-741-9884

LETTER OF INTENT

The Publication of Intent is to be published in the Erwin Record (Name of Newspaper) which is a newspaper of general circulation in Unicoi (County), Tennessee, on or before August 10th (Month / day), 2016 (Year), for one day.

This is to provide official notice to the Health Services and Development Agency and all interested parties, in accordance with T.C.A. § 68-11-1601 *et seq.*, and the Rules of the Health Services and Development Agency, that:

Unicoi County Memorial Hospital (Name of Applicant) a hospital (Facility Type-Existing)

owned by: Mountain States Health Alliance with an ownership type of Not-for-Profit Corporation

and to be managed by: itself intends to file an application for a Certificate of Need for: the relocation and replacement of the existing hospital. The replacement facility will include 10 acute care beds and an emergency department with 10 treatment rooms. The replacement facility will be located at an unaddressed site on Temple Hill Road, Erwin, TN 37650. The project will result in the relocation of all other current services to the new facility, and no major services will be initiated or discontinued. The replacement facility will occupy 41,500 square feet. The estimated project cost is $19,999,141.

The anticipated date of filing the application is: August 15th, 2016

The contact person for this project is Allison Rogers (Contact Name) VP, Strategic Planning (Title)

who may be reached at: Mountain States Health Alliance (Company Name) 303 Med Tech Parkway, Suite #330 (Address)

Johnson City (City)	TN (State)	37604 (Zip Code)	423/302-3378 (Area Code / Phone Number)
Allison M. Rogers (Signature)		8/9/2016 (Date)	RogersAM@msha.com (E-mail Address)

The Letter of Intent must be filed in triplicate and received between the first and the tenth day of the month. If the last day for filing is a Saturday, Sunday or State Holiday, filing must occur on the preceding business day. File this form at the following address:

Health Services and Development Agency
Andrew Jackson Building, 9th Floor
502 Deaderick Street
Nashville, Tennessee 37243

The published Letter of Intent must contain the following statement pursuant to T.C.A. § 68-11-1607(c)(1). (A) Any health care institution wishing to oppose a Certificate of Need application must file a written notice with the Health Services and Development Agency no later than fifteen (15) days before the regularly scheduled Health Services and Development Agency meeting at which the application is originally scheduled; and (B) Any other person wishing to oppose the application must file written objection with the Health Services and Development Agency at or prior to the consideration of the application by the Agency.

COPY

UNICOI COUNTY MEMORIAL HOSPITAL

CN1608-030

Mountain States Health Alliance

Unicoi County Memorial Hospital Relocation and Replacement Project

Certificate of Need Application
August 15, 2016

Prepared for:
Tennessee Health Services and Development Agency
Andrew Jackson Building, Ninth Floor
502 Deaderick Street Nashville, TN 37243
615.741.2364

Contact:
Allison Rogers
423.302.3378

SECTION A:

APPLICANT PROFILE

Please enter all Section A responses on this form. All questions must be answered. If an item does not apply, please indicate *"N/A"*. ***Attach appropriate documentation as an Appendix at the end of the application and reference the applicable Item Number on the attachment.***

For Section A, Item 1, *Facility Name* ***must be*** *applicant facility's name and address* ***must be*** *the site of the proposed project.*

For Section A, Item 3, *Attach a copy of the partnership agreement, or corporate charter* ***and*** certificate of corporate existence, if applicable, from the Tennessee Secretary of State.

RESPONSE: Corporate Charter and Certificate of Corporate Existence are included in attachments.

For Section A, Item 4, *Describe the existing or proposed ownership structure of the applicant, including an ownership structure organizational chart. Explain the corporate structure and the manner in which all entities of the ownership structure relate to the applicant. As applicable, identify the members of the ownership entity and each member's percentage of ownership, for those members with 5% or more ownership interest. In addition, please document the financial interest of the applicant, and the applicant's parent company/owner in any other health care institution as defined in* Tennessee Code Annotated, §68-11-1602 *in Tennessee. At a minimum, please provide the name, address, current status of licensure/certification, and percentage of ownership for each health care institution identified.*

RESPONSE: Organizational Chart for Mountain States Health Alliance is included in attachments.

For Section A, Item 5, *For new facilities or existing facilities without a current management agreement, attach a copy of a draft management agreement that at least includes the anticipated scope of management services to be provided, the anticipated term of the agreement, and the anticipated management fee payment methodology and schedule. For facilities with existing management agreements, attach a copy of the fully executed final contract.*

Please describe the management entity's experience in providing management services for the type of the facility, which is the same or similar to the applicant facility. Please describe the ownership structure of the management entity.

RESPONSE: Not applicable.

For Section A, Item 6, *For applicants or applicant's parent company/owner that currently own the building/land for the project location; attach a copy of the title/deed. For applicants or applicant's parent company/owner that currently lease the building/land for the project location, attach a copy of the fully executed lease agreement. For projects where the location of the project has not been secured, attach a fully executed document including Option to Purchase Agreement, Option to Lease Agreement, or other appropriate documentation. Option to Purchase Agreements* ***must include*** *anticipated purchase price. Lease/Option to Lease Agreements* ***must include*** *the actual/anticipated term of the agreement* ***and*** *actual/anticipated lease expense. The legal interests described herein* ***must be valid*** on the date of the Agency's consideration of the certificate of need application.

RESPONSE: The warranty deed is included in attachments.

1. ***Name of Facility, Agency, or Institution***

Unicoi County Memorial Hospital
Name

Temple Hill Road (site currently unaddressed) — Unicoi
Street or Route — County

Erwin — TN — 37650
City — State — Zip Code

2. ***Contact Person Available for Responses to Questions***

Allison Rogers — VP, Strategic Planning
Name — Title

Mountain States Health Alliance — RogersAM@msha.com
Company Name — Email address

303 Med Tech Parkway, Suite #330 — Johnson City — TN — 37604
Street or Route — City — State — Zip Code

Employee — 423-302-3378 — 423-302-3448
Association with Owner — Phone Number — Fax Number

3. ***Owner of the Facility, Agency or Institution***

Mountain States Health Alliance — 423-431-6111
Name — Phone Number

400 N. State of Franklin Road — Washington
Street or Route — County

Johnson City — TN — 37604
City — State — Zip Code

4. ***Type of Ownership of Control (Check One)***

A. Sole Proprietorship		F. Government (State of TN or Political Subdivision)	
B. Partnership			
C. Limited Partnership		G. Joint Venture	
D. Corporation (For Profit)		H. Limited Liability Company	
E. Corporation (Not-for-Profit)	X	I. Other (Specify)_____	

PUT ALL ATTACHMENTS AT THE BACK OF THE APPLICATION IN ORDER AND REFERENCE THE APPLICABLE ITEM NUMBER ON ALL ATTACHMENTS.

5. ***Name of Management/Operating Entity*** ***(If Applicable)***

N/A
Name

Street or Route

County

City

State

Zip Code

PUT ALL ATTACHMENTS AT THE END OF THE APPLICATION IN ORDER AND REFERENCE THE APPLICABLE ITEM NUMBER ON ALL ATTACHMENTS.

6. ***Legal Interest in the Site of the Institution*** ***(Check One)***

A. Ownership	X	D. Option to Lease	
B. Option to Purchase		E. Other (Specify)	
C. Lease of _____ Years			

PUT ALL ATTACHMENTS AT THE BACK OF THE APPLICATION IN ORDER AND REFERENCE THE APPLICABLE ITEM NUMBER ON ALL ATTACHMENTS.

7. ***Type of Institution*** ***(Check as appropriate--more than one response may apply)***

A. Hospital (Specify) Acute	X	H. Nursing Home	
B. Ambulatory Surgical Treatment Center (ASTC), Multi-Specialty		I. Outpatient Diagnostic Center	
		J. Rehabilitation Facility	
C. ASTC, Single Specialty		K. Residential Hospice	
D. Home Health Agency		L. Nonresidential Substitution-Based Treatment Center for Opiate Addiction	
E. Hospice			
F. Mental Health Hospital			
G. Intellectual Disability Institutional Habilitation Facility (IDIHF) (ICF/IID formerly (ICF/MR)		M. Birthing Center	
		N. Other Outpatient Facility	
		O. Other (Specify)	

8. ***Purpose of Review*** ***(Check as appropriate--more than one response may apply)***

A. New Institution		G. Change in Bed Complement [*Please note the type of change by underlining the appropriate response: Increase, Decrease, Designation, Distribution, Conversion, Relocation*]	X
B. Replacement/Existing Facility	X		
C. Modification/Existing Facility			
D. Initiation of Health Care Service as defined in TCA § 68-11-1607(4) (Specify)		H. Change of Location	X
		I. Other (Specify)	
E. Discontinuance of OB Services			
F. Acquisition of Equipment			

9. ***Bed Complement Data***

Please indicate current and proposed distribution and certification of facility beds.

Unicoi County Memorial Hospital (UCMH) is currently licensed for 48 beds but only staffs 11 of those beds. 10 Inpatient beds are proposed for this facility and are believed to be the appropriate amount in attempt to "right size" UCMH.

	Current Beds Licensed	Current Beds *CON	Staffed Beds	Beds Proposed	TOTAL Beds at Completion
A. Medical	46		11	10	10
B. Surgical					
C. Long-Term Care Hospital					
D. Obstetrical					
E. ICU/CCU	2		0		
F. Neonatal					
G. Pediatric					
H. Adult Psychiatric					
I. Geriatric Psychiatric					
J. Child/Adolescent Psychiatric					
K. Rehabilitation					
L. Nursing Facility - SNF (Medicare only)					
M. Nursing Facility – NF (Medicaid only)					
N. Nursing Facility – SNF/NF (dually certified Medicaid/Medicare)					
O. Nursing Facility – Licensed (non-Certified)					
P. IDIHF					
Q. Adult Chemical Dependency					
R. Child and Adolescent Chemical Dependency					
S. Swing Beds					
T. Mental Health Residential Treatment					
U. Residential Hospice					
TOTAL	**48**		**11**	**10**	**10**

*CON-Beds approved but not yet in service

10. **Medicare Provider Number** 440001
Certification Type General Acute Care Facility

11. **Medicaid Provider Number** 0440001
Certification Type General Acute Care Facility

12. **If this is a new facility, will certification be sought for Medicare and/or Medicaid?**

Response: Because this is a replacement facility, no changes will be made in the certification or licensure of Unicoi County Memorial Hospital.

13. **Will this project involve the treatment of TennCare participants?** Yes. The UCMH replacement facility will continue to provide care to the TennCare population through participation in the following plans: BlueCare, Community Plan, and Amerigroup.

NOTE: ***Section B*** is intended to give the applicant an opportunity to describe the project and to discuss the need that the applicant sees for the project. ***Section C*** addresses how the project relates to the Certificate of Need criteria of Need, Economic Feasibility, and the Contribution to the Orderly Development of Health Care. **Discussions on how the application relates to the criteria should not take place in this section unless otherwise specified.**

SECTION B: PROJECT DESCRIPTION

Please answer all questions on 8 1/2" x 11" white paper, clearly typed and spaced, identified correctly and in the correct sequence. In answering, please type the question and the response. All exhibits and tables must be attached to the end of the application in correct sequence identifying the questions(s) to which they refer. If a particular question does not apply to your project, indicate "Not Applicable (NA)" after that question.

I. Provide a brief executive summary of the project not to exceed two pages. Topics to be included in the executive summary are a brief description of proposed services and equipment, ownership structure, service area, need, existing resources, project cost, funding, financial feasibility, staffing, and how the project will contribute to the orderly development of adequate and effective healthcare.

RESPONSE:

Brief description of proposed services and equipment:
This application proposes the building of a 10-bed acute care replacement facility, which will also include an emergency department with 10 treatment rooms, for Unicoi County Memorial Hospital (UCMH) located in Erwin (Unicoi County), TN. This proposed replacement facility will also include radiology services such as CT and MRI, outpatient rehab, and the inclusion of ample office space for primary care providers. In addition, two of the emergency department treatment rooms will be constructed to allow for care of observation patients.

Ownership structure:
Unicoi County Memorial Hospital became a part of Mountain States Health Alliance (MSHA) in November 2013, in which MSHA acquired 100% ownership of UCMH. Mountain States Health Alliance is a large, integrated, not-for-profit health care system based in Johnson City, Tennessee. Founded in 1998, MSHA has historical community roots in the Johnson City Medical Center (JCMC) (1980-Present), Memorial Hospital (1951-1980), and Appalachian Hospital (1911-1951). The hospital system includes thirteen hospitals providing a core of acute care, hospital-based services, and an array of supporting services. In addition, MSHA operates urgent care centers, outpatient facilities, laboratory and radiology services, physician practices, long-term care and rehabilitation facilities, and community-based prevention and educational activities to a population of over 1.1 million residents of southern and central Appalachia.

Because of its financial struggles and the poor condition of the physical plant, UCMH was on the verge of closing and sought a partnership with Mountain States Health Alliance. As part of the purchase agreement for UCMH, MSHA committed to building a new hospital in Unicoi County, TN, within five years of UCMH joining the system, which in this case is by November 2018. Additional requirements of the purchase agreement include that the new hospital must provide inpatient acute care services and must have at least 20 total beds

throughout the facility. This proposed project will meet those requirements by providing 10 inpatient acute care beds and 10 unlicensed beds within the emergency department treatment rooms.

Service area:
The overwhelming majority of Unicoi County Memorial Hospital's patients are residents of Unicoi County, TN, and as such, this project's proposed service area is defined as only that county.

Need:
Built in 1953, Unicoi County Memorial Hospital is a 48-bed acute care hospital currently located at 100 Greenway Circle, Erwin, TN. UCMH is the only acute care facility physically located in Unicoi County, TN, and as such, all care being sought at other facilities results in the patient leaving the county. The facility is located in downtown Erwin in a heavily congested area near Unicoi County High School and Unicoi County Middle School, making it difficult for local EMS and patients from other areas of the county to access, particularly in emergent situations. The current facility is at the end of its lifespan, with much of the facility infrastructure being original to when the hospital was built. MSHA has spent significant capital dollars in recent years to keep UCMH in a state sufficient for acute care patients, such as the recent replacement of a failed chiller and repairs to the roof, sewer lines, and water lines. For the last three fiscal years, UCMH's maintenance and repair costs alone have totaled more than $1.6 million.

This project will provide MSHA the opportunity to replace an aging hospital with a state-of-the-art facility designed to meet the healthcare needs of the residents of Unicoi County. UCMH currently staffs only 11 of its 48 acute care beds and has an average daily census of 5 inpatients. The current facility is set up primarily for care in the inpatient setting, but projections indicate that the demand for inpatient services will continue to decline. With the continued shifts of services from the inpatient setting to outpatient, much of the current facility will either remain unused or will need to be completely renovated to meet the growing demand for outpatient services. Several of UCMH's critical outpatient programs are projected to continue to grow, including diagnostic imaging, respiratory services, and outpatient rehab. However, inefficiencies in the layout of current space will not be accommodating for continued growth, and renovations will require even more capital investments to the large amounts already being used to keep the current facility operational.

Existing resources:
Unicoi County Memorial Hospital is the only acute care hospital in the proposed service area. Services at the current UCMH facility include inpatient acute care, a 24-hour emergency department, radiology services such as CT and MRI, outpatient rehabilitation services, and laboratory testing.

Project cost:
The proposed project will be located at a currently unaddressed site on Temple Hill Road, Erwin, TN 37650, and the replacement facility will occupy 41,500 square feet. The estimated project cost is $19,999,141.

Funding:
Funding for this project will be through the use of existing cash reserves of MSHA.

Financial feasibility:

The replacement facility is projected to have a loss of ($3,379,696) in Year 1 and a loss of ($3,548,661) in year 2. Because UCMH serves a rural community that needs local healthcare services, MSHA is committed to ensuring the successful operation of a hospital in Unicoi County, TN, which would ultimately close without the support of the healthcare system.

Staffing:
The proposed replacement facility projects 97 total employees to be in place in Year 1 and Year 2 of operation, of which 71.6 employees (full-time equivalent) will be involved in direct patient care.

Orderly development of adequate and effective healthcare:

This replacement facility will have no negative impact on other local healthcare providers, while also maintaining operations of much needed services in a rural community. This project will "right-size" UCMH in a way that provides adequate care in each patient care setting. This UCMH replacement facility will serve as a true community hospital by providing the community's most needed services, while also collaborating with other area providers to ensure efficient and effective delivery of care for all patients of the project service area.

II. Provide a detailed narrative of the project by addressing the following items as they relate to the proposal.

A. Describe the construction, modification and/or renovation of the facility (exclusive of major medical equipment covered by T.C.A. § 68-11-1601 et seq.) including square footage, major operational areas, room configuration, etc. Applications with construction, modification and/or renovation costs should complete the Square Footage and Cost per Square Footage Chart. Utilizing the attached Chart, applicants with hospital projects should complete Parts A.-E. by identifying as applicable nursing units, ancillary areas, and support areas affected by this project. Provide the location of the unit/service within the existing facility along with current square footage, where, if any, the unit/service will relocate temporarily during construction and renovation, and then the location of the unit/service with proposed square footage. The total cost per square foot should provide a breakout between new construction and renovation cost per square foot. Other facility projects need only complete Parts B.-E. Please also discuss and justify the cost per square foot for this project.

RESPONSE:

This application seeks approval to construct a new 10-bed replacement facility, which will also include an emergency department with 10 treatment rooms, for Unicoi County Memorial Hospital. This proposed facility will be located at a currently unaddressed site on Temple Hill Road, Erwin, TN, and will occupy 41,500 square feet. Temple Hill Road runs parallel to Interstate 26, and the proposed site is less than 0.4 miles from Exit 40 of I-26.

The vision for this proposed replacement hospital is for it to be a community resource for healthcare to better meet the healthcare needs of the service area population. This

facility is conceived as an opportunity to provide contemporary healthcare in a more accessible location with efficient space for improved work flow and delivery of healthcare in a patient and family friendly atmosphere.

Interior spaces will include as much natural daylight as possible since it is proven that natural light is a benefit to the healing process. MSHA is a proponent of "Green Buildings" and a clean, safe healing environment, and the intent is to utilize many of the building products and building systems to move in that direction without placing an undue burden of cost on the facility or the project. This "Green" effort will help to provide a facility that has healing benefits from good ventilation, air quality, proper levels and control of lighting, and use of low impact chemical products in the manufacturing of materials and systems used in the construction of this facility, while at the same time receiving a life-cycle cost benefit from these systems and materials.

Designs will respect MSHA's emphasis on Patient-Centered Care in the design and layout of the healing environment. This places a special emphasis on ease of access from patients and families to healthcare workers, low height desks and counters for face-to-face communications between members of the healthcare team, layout of spaces and choice of materials to create a quiet and contemplative environment, all private patient rooms for both noise control and patient privacy issues, and infection control.

The design employs the process of evidence based design and evidence based medicine in the planning and layout of the healing environment. Involvement will continue for medical staff, administrative and facilities staff, as well as the project design team. Reduced walking distances, better adjacency of critical departments for efficient workflow of team members and patients alike, better access to support facilities and functions, proper size of spaces to accommodate current and future technologies and equipment for ever changing healthcare delivery systems, building systems wired and wireless for enhanced access to databases of records, knowledge and references for team members and physicians, access to high technology for patients, families and visitors for educational and business purposes, awareness of evolving technologies, and planning to accommodate future changes will all result in a collaborative, interdisciplinary work place. These will collectively create an atmosphere for reduction of stress and fatigue for the variety of persons involved in healthcare, with a benefit to speed the healing process and reduce length of stay. Side benefits of this enhanced environment will be the ease of staff recruitment and retention from a more responsive work environment and a goal of controlling the cost of healthcare delivery.

This facility will be designed and constructed in accordance with all appropriate primary codes and standards as listed by the Tennessee Department of Health Board for Licensing of Health Care Facilities, and architectural support is included in the attachments.

In summary, this new 10-bed acute care facility, with 41,500 gross square feet of space, will include:

- Entry plaza with canopy for patients, visitors and team members
- Separate drive and entry for Emergency Department access

- Emergency Department to include 10 exam-treatment rooms, triage, and ambulance entry; two of the ED treatment rooms will be designed and equipped to care for Observation patients
- 10-bed inpatient medical unit adjacent to, but separate from, emergency department; this will allow for ease of access for admission of both emergent patients and direct admits
- Grounds will be landscaped with healing gardens for therapeutic and contemplative purposes, as well as for relief of stress and for relaxation
- Hospital will be highly visible and easy to access from Interstate 26
- High-tech building systems will include secure and convenient access to electronic medical records and security systems monitoring sensitive spaces throughout facility
- Admitting and administration will be conveniently located near the main lobby
- Additional patient services include rehabilitation programs, radiology services including CT and MRI, laboratory services, and clinic space for primary care services
- Building is designed with flexibility of systems and spaces to easily accommodate future expansions for approved services to meet patient demands

B. Identify the number and type of beds increased, decreased, converted, relocated, designated, and/or redistributed by this application. Describe the reasons for change in bed allocations and describe the impact the bed change will have on the existing services.

RESPONSE:

This application seeks approval to construct a new 10-bed replacement facility for Unicoi County Memorial Hospital. Currently, UCMH is licensed for 48 acute care beds. This project is being proposed to meet the long-term needs of the community by replacing a facility at the end of its lifespan with a state-of-the-art hospital that will more effectively accommodate the shifts in healthcare demand from residents of the service area, while also being constructed in a more convenient location.

Only 11 of UCMH's 48 beds were staffed in fiscal years 2015 and 2016; UCMH had an average daily census of 8 and 5 in those years, respectively, leaving much of the current facility unoccupied. Inpatient utilization is projected to decline steadily in the coming years, and the current UCMH facility is not designed for the continued shift of demand to the outpatient setting. This replacement project proposes to decrease the number of beds at UCMH from 48 to 10, which will allow the new UCMH facility to continue providing inpatient medical services in the capacity of a true community hospital at a size proportional to the population of the community. This new design will result in more effective occupancy; whereas, more than 75% of UCMH's current licensed beds are not even staffed. By decreasing licensed beds to 10 in the proposed replacement facility, more space could be allotted to UCMH's growing outpatient services, such as diagnostic imaging and rehabilitation programs. This project also allows UCMH the opportunity to include space for primary care services, which has been identified as one of the proposed service area's most needed services.

SQUARE FOOTAGE AND COST PER SQUARE FOOTAGE CHART

A. Unit / Department	Existing Location	Existing SF	Temporary Location	Proposed Final Location	Proposed Final Square Footage			Proposed Final Cost / SF		
					Renovated	New	Total	Renovated	New	Total
Emergency Department		4,368		7,134		7,134	7,134		$394.71	$2,815,878
Admissions/ Registration		659		960		960	960		$319.88	$307,083
Medical Imaging		4,878		8,135		8,135	8,135		$404.88	$3,293,685
Clinical Lab		1,204		798		798	798		$352.88	$281,597
Pharmacy		1,023		504		504	504		$335.28	$168,980
Medical/ Surgical Beds		7,810		6,278		6,278	6,278		$341.88	$2,146,312
Dietary		3,794		2,787		2,787	2,787		$324.88	$905,436
Environmental Services		320		1,302		1,302	1,302		$344.88	$449,032
Materials Management		2,127		1,254		1,254	1,254		$238.88	$299,553
Plant-ops		1,830		308		308	308		$224.88	$69,263
Out-Patient Clinic		-		792		792	792		$251.88	$199,488
Information Tech.		343		864		864	864		$225.88	$195,159
Volunteer Services		266		220		220	220		$229.88	$50,573
Administration		1,658		1,890		1,890	1,890		$254.88	$481,720
HIM		1,451		726		726	726		$232.88	$169,070
Human Resources		263		244		244	244		$243.87	$59,504
Business/ Accounting		809		352		352	352		$244.88	$86,197
Pastoral Care		200		176		176	176		$251.88	$44,331
Operating Room		4,948		-		-	-		-	-
B. Unit/Depart. GSF Sub-Total		37,951		34,724		34,724	34,724		$346.24	$12,022,861
C. Mechanical/ Electrical GSF		2,378		2,080		2,080	2,080		$373.88	$777,667
D. Circulation /Structure GSF		4,226		3,696		3,696	3,696		$223.58	$826,335
Canopies @ 1/2		-		1,000		1,000	1,000		$158.88	$158,878
E. Total GSF		44,555		41,500		41,500	41,500		$332.19	$13,785,741

C. As the applicant, describe your need to provide the following health care services (if applicable to this application):

1. Adult Psychiatric Services
2. Hospital-Based Alcohol and Drug Treatment for Adolescents (exceeding 28 days)
3. Burn Units
4. Cardiac Catheterization Services
5. Child and Adolescent Psychiatric Services
6. Extracorporeal Lithotripsy
7. Home Health Services
8. Hospice Services
9. Magnetic Resonance Imaging (MRI)
10. Neonatal Intensive Care Unit
11. Opiate Addiction Treatment provided through a Non-Residential Substitution-Based Treatment Center for Opiate Addiction
12. Open Heart Surgery
13. Positron Emission Tomography
14. Radiation Therapy/Linear Accelerator
15. Rehabilitation Services
16. Swing Beds
17. Discontinuation of any obstetrical or maternity service
18. Closure of a Critical Access Hospital
19. Elimination in a critical access hospital of any service for which a certificate of need is required

RESPONSE:
Not applicable. No new services will be introduced as a part of this project.

D. Describe the need to change location or replace an existing facility.

RESPONSE:

The current UCMH facility was built in 1953 and has reached the end of its lifespan. MSHA has spent more than $1.6 million over the last three years in maintenance and repairs to keep UCMH in a condition sufficient for patient care. UCMH leadership has requested capital totaling more than $1 million over the next 5 years, most of which involves repairs to or replacement of the current facility's infrastructure. Even so, many of the repairs for the current facility over the past three years were unplanned. For fiscal years 2014 through 2016, UCMH accumulated maintenance and repair costs of $311,126; $691,413; and $615,746, respectively. In anticipation of some of those unplanned repairs, UCMH has budgeted for just over $648,000 in maintenance expenses for fiscal year 2017.

In addition to the multitude of issues with the current physical plant, the current UCMH facility is not designed for today's healthcare landscape that continues to shift its focus to outpatient services, wellness, and prevention. With only 11 of UCMH's 48 licensed beds presently staffed, a significant portion of the hospital goes underutilized. For fiscal year 2016, UCMH treated 25,982 outpatient visits, compared to only 500 admissions and 344 observation patients. In addition, nearly 83% of UCMH's gross patient revenue was generated from outpatient services for FY2016. Outpatient services far outweigh the inpatient setting in terms of utilization, and the demand for hospital outpatient services is projected to continue to increase in coming years. The current UCMH facility will require significant renovation, which will lead to additional capital expenses on top of the significant

funds already used for upkeep of the hospital, to convert any unused inpatient space into an expansion for current outpatient services.

This project also seeks to address the issue of access for patients by relocating to a more easily accessible location less than 0.4 miles from Exit 40 of Interstate 26. The current facility is located in a congested area in downtown Erwin, TN, near Unicoi County High School and Unicoi County Middle School. School zones and local business traffic can cause delays for patients, as well as local ambulance services, trying to reach the hospital. The proposed location for the new facility will still be convenient to the residents of Erwin, while also allowing easier access for those living in the other two zip codes of Unicoi County: Unicoi, TN (37692) and Flag Pond, TN (37657).

The current facility does not provide the patient-centered environment that has come to be expected of hospitals, as the layout of the current UCMH is both inefficient and confusing for patients and families. Because of this aging facility's condition and layout, UCMH is not properly suited to meet the current and future demands of the community it serves. For the reasons described above, Mountain States Health Alliance has determined that the best course of action for Unicoi County Memorial Hospital to best care for the community it serves is to relocate and replace the current facility.

E. Describe the acquisition of any item of major medical equipment (as defined by the Agency Rules and the Statute) which exceeds a cost of $1.5 million; and/or is a magnetic resonance imaging (MRI) scanner, positron emission tomography (PET) scanner, extracorporeal lithotripter and/or linear accelerator by responding to the following:

1. For fixed-site major medical equipment (not replacing existing equipment):

   a. Describe the new equipment, including:

      1. Total cost (As defined by Agency Rule)
      2. Expected useful life;
      3. List of clinical applications to be provided; and
      4. Documentation of FDA approval

      RESPONSE:

      Not applicable. UCMH will be replacing existing equipment as part of this project, but no equipment purchases as part of this project will meet the criteria defined above by the Agency.

   b. Provide current and proposed schedules of operations.

      RESPONSE:

      Not applicable. UCMH will be replacing existing equipment as part of this project, but no equipment purchases as part of this project will meet the criteria defined above by the Agency.

2. For mobile major medical equipment:

   a. List all sites that will be served;

   b. Provide current and/or proposed schedule of operations;

c. Provide the lease or contract cost.

d. Provide the fair market value of the equipment; and

e. List the owner for the equipment.

RESPONSE:

Not applicable. UCMH will be replacing existing equipment as part of this project, but no equipment purchases as part of this project will meet the criteria defined above by the Agency.

3. Indicate applicant's legal interest in equipment (*i.e.*, purchase, lease, etc.) In the case of equipment purchase include a quote and/or proposal from an equipment vendor, or in the case of an equipment lease provide a draft lease or contract that at least includes the term of the lease and the anticipated lease payments along with the fair market value of the equipment.

RESPONSE:

Not applicable. UCMH will be replacing existing equipment as part of this project, but no equipment purchases as part of this project will meet the criteria defined above by the Agency.

III. (A) Attach a copy of the plot plan of the site on an 8 1/2" x 11" sheet of white paper which **must include**:

1. Size of site (***in acres***);
2. Location of structure on the site; and
3. Location of the proposed construction.
4. Names of streets, roads or highway that cross or border the site.

Please note that the drawings do not need to be drawn to scale. Plot plans are required for all projects.

RESPONSE:

The UCMH replacement facility will be located at a currently unaddressed site on Temple Hill Road, Erwin, TN 37650. The proposed site can be accessed in either direction along Temple Hill Road, which runs parallel to Interstate 26. The size of the campus will be approximately 45 acres. The plot plan for the UCMH replacement facility is included in the attachments.

(B) 1. Describe the relationship of the site to public transportation routes, if any, and to any highway or major road developments in the area. Describe the accessibility of the proposed site to patients/clients. ***(Not applicable to home health or hospice agency applications.)***

RESPONSE:

The UCMH Replacement Hospital will be located at a currently unaddressed site on Temple Hill Road in Erwin, TN and will be easily accessible, as it is less than 0.4 miles from Exit 40 of Interstate 26. The proposed site will be accessible through

multiple access points for ambulatory patients, patients transferred into the facility and for emergent patients. The replacement facility will have an emergency department operated 24 hours per day and will have transport agreements with local EMS providers for ground ambulance transports.

IV. Attach a floor plan drawing for the facility which includes legible labeling of patient care rooms (noting private or semi-private), ancillary areas, equipment areas, etc. on an 8 1/2" x 11" sheet of white paper. ***(Not applicable to home health or hospice agency applications.)***

NOTE: ***DO NOT SUBMIT BLUEPRINTS***. Simple line drawings should be submitted and need not be drawn to scale.

RESPONSE:
Floor plans for the UCMH replacement facility are attached.

V. For a Home Health Agency or Hospice, identify:

1. Existing service area by County;
2. Proposed service area by County;
3. A parent or primary service provider;
4. Existing branches; and
5. Proposed branches.

RESPONSE:

Not applicable

SECTION C: GENERAL CRITERIA FOR CERTIFICATE OF NEED

In accordance with Tennessee Code Annotated § 68-11-1609(b), "no Certificate of Need shall be granted unless the action proposed in the application for such Certificate is necessary to provide needed health care in the area to be served, can be economically accomplished and maintained, and will contribute to the orderly development of health care." The three (3) criteria are further defined in Agency Rule 0720-4-.01. Further standards for guidance are provided in the state health plan developed pursuant to Tennessee Code Annotated §68-11-1625.

The following questions are listed according to the three (3) criteria: (I) Need, (II) Economic Feasibility, and (III) Contribution to the Orderly Development of Health Care. Please respond to each question and provide underlying assumptions, data sources, and methodologies when appropriate. *Please type each question and its response on an 8 1/2" x 11" white paper*. All exhibits and tables must be attached to the end of the application in correct sequence identifying the question(s) to which they refer. If a question does not apply to your project, indicate "Not Applicable (NA)."

QUESTIONS

NEED

1. Describe the relationship of this proposal toward the implementation of the State Health Plan and Tennessee's Health: Guidelines for Growth, if applicable.

a. Please discuss how the proposed project will relate to the 5 Principles for Achieving Better Health found in the State Health Plan. Please list each principle and follow it with a response.

Principle 1: The purpose of the State Health Plan is to improve the health of Tennesseans.

RESPONSE:
The proposed replacement facility will be designed to meet the changing healthcare demands of the community it serves. The UCMH replacement facility will continue to provide inpatient care, but it will also seek to improve its delivery of healthcare by focusing heavily on its growing outpatient services. The available space for primary care providers, along with key outpatient programs, will also play an integral part in the efforts geared toward wellness, prevention, and population health. In addition to the focus on the types of services needed in the community, the replacement facility itself will be designed to aid in the healing process and create a patient-centered care environment through the facility design, landscaping, and layout of patient care areas.

Principle 2: Every citizen should have reasonable access to health care.

RESPONSE:
UCMH is the only acute care facility in Unicoi County, TN, and its current location is not easily accessible for patients and local EMS. Without this facility, patients from Unicoi County would have to travel outside the county to seek treatment. However, residents also deserve to seek care without the delays experienced with the location of the current facility. The proposed location of the replacement facility is a more convenient location for residents of the county as a whole.

Principle 3: The state's health care resources should be developed to address the needs of Tennesseans while encouraging competitive markets, economic efficiencies and the continued development of the state's health care system.

RESPONSE:
The proposed project will establish a facility that will provide the most critically needed services in the inpatient, outpatient, and emergency department settings, and the UCMH replacement facility will be designed to align with the trends in healthcare delivery both locally and nationally to meet the future needs of the project service area. The replacement facility will be designed as a response to the projected decline in inpatient services and the expected growth of outpatient services. The facility will be designed to provide the most efficient, highest quality, and clinically appropriate services, and its relationships with other area providers will allow for seamless and effective delivery of care for the residents of Unicoi County, TN.

Principle 4: Every citizen should have confidence that the quality of health care is continually monitored and standards are adhered to by health care providers.

RESPONSE:
Given the commitments of Mountain States Health Alliance to the success of this project, the Agency and the community can be confident that the proposed replacement facility will meet and maintain stringent clinical standards.

Principle 5: The state should support the development, recruitment and retention of a sufficient and quality health care workforce.

RESPONSE:
The proposed state-of-the-art facility will provide a setting that will be attractive for current healthcare professionals, as well as those seeking to enter the healthcare field. It can be challenging to recruit staff and providers to a rural hospital, which, in the case of UCMH, is also at the end of its physical plant's lifespan. This new facility presents an opportunity to design a hospital that could improve the delivery of healthcare and patient experience, create a healing environment, and further aid the efforts to attract high-quality healthcare professionals to Unicoi County.

b. Please provide a response to each criterion and standard in Certificate of Need Categories that are applicable to the proposed project. Do not provide responses to General Criteria and Standards (pages 6-9 of the Guidelines for Growth) here

Special Criteria for Construction, Renovation, Expansion, and Replacement of Health Care Institutions

1. Any project that includes the addition of beds, services, or medical equipment will be reviewed under the standards for those specific activities.

RESPONSE:
This application is for the replacement facility for Unicoi County Memorial Hospital and will not involve the addition of new beds or services, but rather the relocation and replacement of these existing services.

2. **For relocation or replacement of an existing licensed health care institution:**

   a. **The applicant should provide plans which include costs for both renovation and relocation, demonstrating the strengths and weaknesses of each alternative.**

RESPONSE:
UCMH is an aging facility that will require significant capital dollars to maintain the physical plant in a sufficient state to care for patients. UCMH is operating well below capacity as only 11 of its 48 acute care beds are currently staffed, and the demands for healthcare services continue to shift to the outpatient setting. The layout of the current facility is not accommodating to these shifts, and large sections of the facility are significantly underutilized. Access to the facility continues to be a challenge, as it is located in a busy part of town with heavy traffic, causing delays for those trying to reach the hospital.

The construction of a 10-bed replacement hospital for UCMH will have multiple benefits, including a new state-of-the-art facility built in a more easily accessible location that will be designed to include those services that are most needed in the community. This newly designed facility will be "right-sized" to meet the demand in each patient care setting and will allow for the anticipated growth of outpatient services, along with the inclusion of clinic space for primary care providers to aid in the efforts to improve population health. In addition, as a part of the design phase for this replacement facility, an expansion plan has been developed in the event that

future demand requires additional space for expansion of existing services or the addition of new services.

One alternative considered to building a replacement hospital for UCMH is to maintain the status quo and continue spending large capital dollars in an attempt to maintain this facility in a state sufficient for patient care. As this facility approaches the end of its practical life span for patient care, it does not make sense to continue committing increasing amounts of capital resources to the existing facility. A significant portion of UCMH's budget in recent years has been dedicated to maintenance and repair costs alone, and the budgeted total for these costs in fiscal year 2017 is $648,000. Shifts in demand from inpatient to outpatient will also create the need for major renovation in the near future, and it will be nearly impossible to continue operations at the current facility while undertaking a renovation of the scope necessary to bring the building to current standards. This was not considered to be a feasible option.

A second alternative is to build a replacement hospital on the existing campus of UCMH. Currently, there is not sufficient land at this location to build a 10-bed replacement facility without having to shut down the existing facility and relocate the patient volumes to other facilities, all of which are outside Unicoi County, during construction. Also, with the continued access problems for both patients and local EMS, it would not make sense to build a new facility in an area that is not optimal for residents of the entire service area. This was not considered to be a feasible option.

For these reasons, MSHA has decided to move forward with this proposal. By constructing a 10-bed replacement hospital for UCMH, MSHA will be maximizing its current resources in a way that prepares the health system to meet the future demands of the local community in the most cost-effective and practical matter possible.

b. The applicant should demonstrate that there is an acceptable existing or projected future demand for the proposed project.

RESPONSE:

With the continued shifts of healthcare delivery from the inpatient setting to outpatient services, projections show an expected 13% decline in inpatient admissions over the next ten years for the proposed service area. Slightly more than 3,000 admissions were attributed to residents of Unicoi County across all hospitals in calendar year 2015, but that number is projected to decrease to fewer than 2,700 by the year 2025. Although admissions are declining, a need for inpatient services in Unicoi County still exists. Residents ages 65 and older make up approximately 24% of the current service area population; moreover, ages 65 and older are projected to grow to nearly 27% by the year 2020. Inpatient acute care services are particularly important to this elderly population, and UCMH is the only facility in the project service area that offers inpatient care. Many Unicoi County residents are seeking inpatient care at their local community hospital and will continue to do so in years to come. As a result, this project will attempt to structure UCMH in a way that meets that demand for inpatient services as appropriate for a community hospital by providing ten inpatient beds, as well as two emergency department rooms equipped to care for observation patients.

As demonstrated in the table below, which is described in more detail in response to Question 6, UCMH's inpatient volume has declined in recent years. However, UCMH is still utilized for inpatient care by the community it serves.

Trends in Inpatient Medical Volume

	Historical Data			Projected Data	
UCMH	FY2014	FY2015	FY2016	Year 1 FY2020	Year 2 FY2021
Admissions	962	720	500	605	593
Patient Days	3,898	2,830	1,668	2,004	1,927
Inpatient Occupancy	22.1%	16.2%	9.5%	54.9%	52.7%
Licensed Beds	48	48	48	10	10
Staffed Beds	13	11	11	10	10

Sources: JARs and Internal Data (Historical), Sg2 and Internal Data (Projected)

In contrast, outpatient services in the hospital setting for the proposed service area are projected to grow by nearly 9% over the next decade. UCMH outpatient visits totaled 25,982 in fiscal year 2016. To further detail some key services in fiscal year 2016, UCMH performed 2,647 outpatient CT scans; 732 outpatient MRI procedures; 1,358 mammograms; 1,439 outpatient respiratory therapy treatments; and 19,146 outpatient rehab treatments. Projected data for some of these services are described in detail in response to Question 6. As the demand for outpatient services continues to grow in the service area, this project will result in a facility designed to help meet this demand, whereas the current facility remains largely underutilized because of its design to treat patients primarily in the inpatient setting.

When UCMH joined MSHA, leadership made a commitment to the community to build a replacement facility within five years of the acquisition. As demonstrated with the utilization data above, demand exists for both inpatient and outpatient services in Unicoi County, TN. However, the current facility is outdated and does not provide an acceptable platform for meeting the future needs of the community.

3. For renovation or expansions of an existing licensed health care institution:

   a. The applicant should demonstrate that there is an acceptable existing demand for the proposed project.

   RESPONSE:
   Not applicable. This request is for the replacement and relocation of existing services at UCMH, not a renovation or expansion.

   b. The applicant should demonstrate that the existing physical plant's condition warrants major renovation or expansion.

   RESPONSE:
   Not applicable. This request is for the replacement and relocation of existing services at UCMH, not a renovation or expansion.

c. Applications that include a Change of Site for a proposed new health care institution (one having an outstanding and unimplemented CON), provide a response to General Criterion and Standards (4)(a-c) of the Guidelines for Growth.

RESPONSE:
Not applicable. This project is for the relocation of an already established health care institution.

2. Describe the relationship of this project to the applicant facility's long-range development plans, if any.

RESPONSE:
This project is consistent with the long-range plans of Mountain States Health Alliance. This proposal improves the allocation of resources within Unicoi County and positions MSHA to meet the future needs of the community as the demands for healthcare continue to shift. As noted previously, inpatient admissions are projected to decline 13% over the next ten years in the proposed service area, while the demand for outpatient services is projected to grow nearly 9%. The current UCMH facility only staffs 11 of its 48 licensed beds, leaving significant portions of the hospital unused. Several key pieces of equipment, such as steam, water, and sewer lines, are original to the hospital, which was built in 1953, while other elements of the facility infrastructure have more than doubled their life expectancy, including multiple HVAC units and the facility's roof. MSHA has spent significant funds to maintain the standards for patient care at UCMH, and expenses to maintain the current facility will continue to grow. The current facility is at the end of its lifespan, and the condition and layout of this facility are not aligned with the needs of its service area. As such, it is MSHA's long-range plan to replace the current UCMH facility with a new state-of-the-art 10-bed replacement hospital. This project will enable MSHA to maximize its existing resources within Unicoi County and to construct a facility that will provide easier access to the hospital and will meet the future demand for services needed by the patients UCMH serves.

3. Identify the proposed service area and justify the reasonableness of that proposed area. Submit a county level map including the State of Tennessee clearly marked to reflect the service area. **Please submit the map on 8 1/2" x 11" sheet of white paper marked only with ink detectable by a standard photocopier (i.e., no highlighters, pencils, etc.).**

RESPONSE:

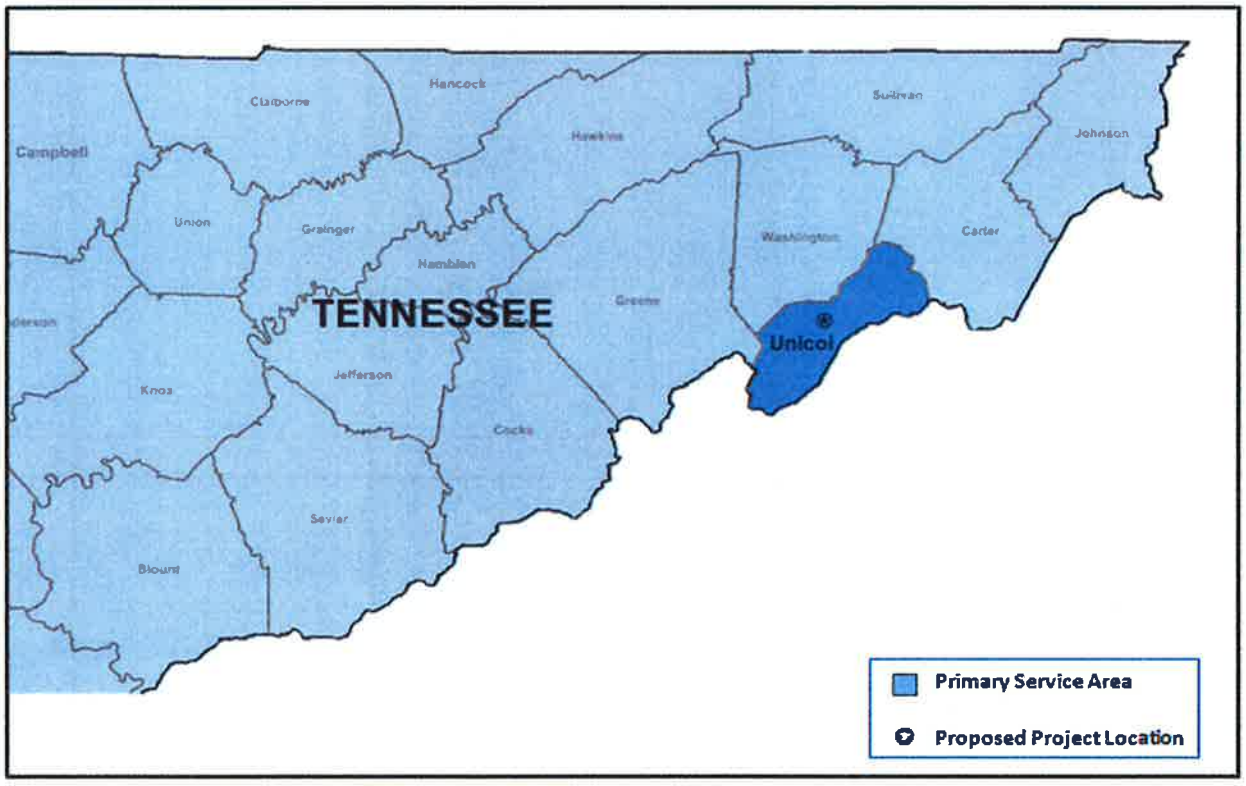
The overwhelming majority of Unicoi County Memorial Hospital's patients are residents of Unicoi County, TN, and as such, this project's proposed service area is defined as only that county. For fiscal years 2014-2016, nearly 88% of UCMH's admissions were residents of Unicoi County, TN. Since this request is for a replacement facility, the UCMH replacement facility will have the same service area definition. The service area definition and respective volumes are provided in the following table.

UCMH FY2014-2016 Patient Origin

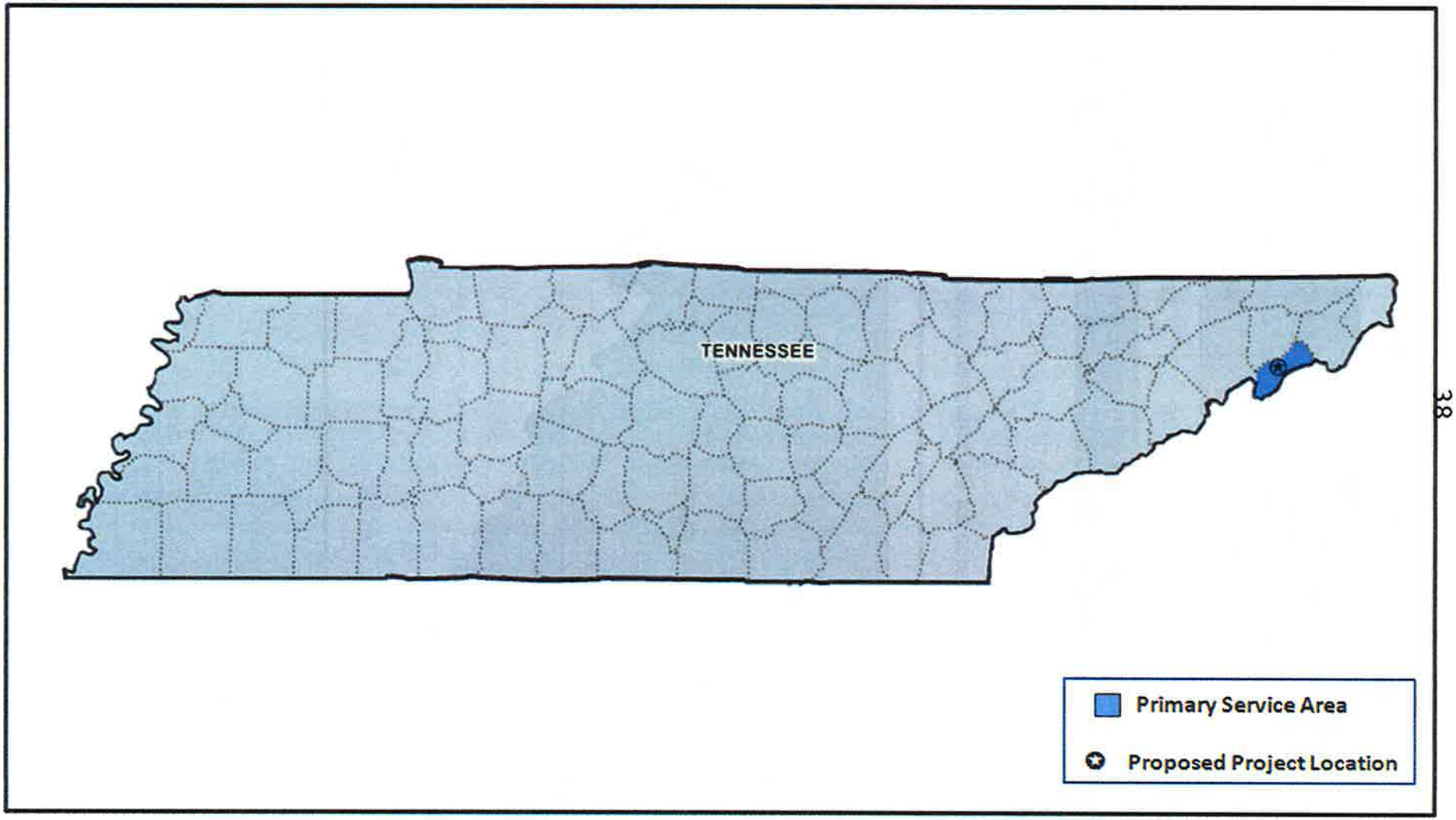
Unicoi County Memorial Hospital	Admissions			% of Total		
	FY2014	FY2015	FY2016	FY2014	FY2015	FY2016
Admits from Residents of Service Area (Unicoi County, TN)	**840**	**644**	**428**	**87.3%**	**89.4%**	**85.6%**
Admits from Other Counties	122	76	72	12.7%	10.6%	14.4%
Total UCMH Admissions	**962**	**720**	**500**	**100.0%**	**100.0%**	**100.0%**

Source: JARs and Internal Data

Maps depicting the service area for the proposed project are provided on the following pages.



UCMH Replacement Hospital
Service Area Map



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4. A. 1) Describe the demographics of the population to be served by this proposal.

RESPONSE:
The following table shows the total population of the service area for this project. The data projects 1.6% growth in the project service area from 2016 to 2020.

TOTAL	2016	2020	2016-2020 Growth	
	Population	Population	# Change	% Change
Unicoi, TN	18,847	19,150	303	1.6%
Service Area Total	**18,847**	**19,150**	**303**	**1.6%**
TENNESSEE	**6,812,005**	**7,108,031**	**296,026**	**4.3%**

Source: TN Department of Health

Within the service area, a higher growth rate is expected among those ages 65 and older. The continued growth in this age group is significant, as residents ages 65 and older currently make up nearly 24% of the service area population.

Elderly Population	2016	2020	2016-2020 Growth	
Ages 65 and Up	Population	Population	# Change	% Change
Unicoi, TN	4,491	5,086	595	13.2%
Service Area Total	**4,491**	**5,086**	**595**	**13.2%**
TENNESSEE	**1,091,516**	**1,266,295**	**174,779**	**16.0%**

Source: TN Department of Health

A demographic snapshot of the project's service area which was prepared by Sg2 is included in Attachment C, Need 4. Sg2 is an international healthcare company which provides analytics (including demographics and utilization projections), intelligence, consulting and educational services to over 1,200 organizations around the world. Their analytics-based health care expertise helps hospitals and health systems integrate, prioritize and drive growth and performance across the continuum of care.

Compared to the state of Tennessee, the demographics of the proposed replacement facility's service area are similar in terms of gender (51 percent female, 49 percent male). The service area county has a much lower median household income of $34,346 compared to $44,621 for Tennessee. The racial mix in the facility service area is predominately Caucasian, accounting for more than 93 percent of the population.

2) Using population data from the Department of Health, enrollee data from the Bureau of TennCare, and demographic information from the US Census Bureau, please complete the following table and include data for each county in your proposed service area:

Demographic Variable/ Geographic Area	Unicoi County	Service Area Total	State of TN Total
Total Population – Current Year (2016)	18,847	18,847	6,812,005
Total Population – Projected Year (2020)	19,150	19,150	7,108,031
Total Population - % Change	1.6%	1.6%	4.3%

Demographic Variable/ Geographic Area	Unicoi County	Service Area Total	State of TN Total
*Target Population (65+) – Current Year (2016)	4,491	4,491	1,091,516
*Target Population (65+) – Projected Year (2020)	5,086	5,086	1,266,295
Target Population (65+) - % Change	13.2%	13.2%	16.0%
Target Population (65+) – Projected Year (2020) as % of Total	26.6%	26.6%	17.8%
Median Age	46.4	46.4	38.6
Median Household Income	$34,346	$34,346	$44,621
TennCare Enrollees	4,312	4,312	1,557,955
TennCare Enrollees as % of Total	22.9%	22.9%	22.9%
Persons Below Poverty Level	3,541	3,541	1,165,245
Persons Below Poverty Level as % of Total	20.1%	20.1%	18.2%

Sources: County and State population data from TN Department of Health, TennCare Enrollee data from Bureau of TennCare, Poverty Level information from U.S. Census Bureau (through 2014)

B. Describe the special needs of the service area population, including health disparities, the accessibility to consumers, particularly the elderly, women, racial and ethnic minorities, and low-income groups. Document how the business plans of the facility will take into consideration the special needs of the service area population.

RESPONSE:

Compared to the state of Tennessee, the demographics of the proposed replacement facility's service area are similar in terms of gender (51 percent female, 49 percent male). The service area county has a much lower median household income of $34,346 compared to $44,621 for Tennessee. The racial mix in the facility service area is predominately Caucasian, accounting for more than 93 percent of the population. The proposed service area demographics across the areas of gender and racial and ethnic minorities are relatively consistent with Tennessee, although the service area is much less diverse compared to the rest of the country.

The largest socio-demographic challenges in the proposed service area relate to the much older population, as well as significantly lower levels of income and education. As described in the table above, the population ages 65 and older will account for 26.6% of the service area population by the year 2020, which is much higher than the state total. Access to acute care services is particularly important to this elderly population, as well as those with lower levels of income, and the current UCMH facility is the only hospital in the project service area.

5. Describe the existing or certified services, including approved but unimplemented CONs, of similar institutions in the service area. Include utilization and/or occupancy trends for each of the most recent three years of data available for this type of project. Be certain to list each

institution and its utilization and/or occupancy individually. Inpatient bed projects must include the following data: admissions or discharges, patient days, average length of stay, and occupancy. Other projects should use the most appropriate measures, e.g., cases, procedures, visits, admissions, etc. Projects including surgery should report the number of cases and the average number of procedures per case.

RESPONSE:
With the service area for this project defined as Unicoi County, TN, the only acute care facility in the service area is Unicoi County Memorial Hospital. As such, services provided by UCMH are and will continue to be a critical piece of healthcare delivery to the residents of the service area.

Current services offered at UCMH include:

- General Radiology
- Magnetic Resonance Imaging (MRI)
- Computed Tomography (CT)
- Ultrasound
- Mammography
- Bone Densitometry
- Non-invasive Procedures (Arterial and Venous Studies)
- Invasive Procedures (Thoracentesis and Paracentesis)
- Cardiac Calcium Scoring
- Rehabilitation Services, including Physical Therapy, Occupational Therapy, and Speech Therapy
- Inpatient Medical
- Emergency Services
- Sleep Lab
- Respiratory Services
- Laboratory
- Pharmacy

Key services provided at this replacement facility will include: inpatient medical, emergency department, CT, and MRI. Utilization of these services is listed below.

Trend in UCMH Inpatient Data

	Admissions			Patient Days			Average Length of Stay			Occupancy %		
Facility	FY2014	FY2015	FY2016	FY2014	FY2015	FY2016	FY2014	FY2015	FY2016	FY2014	FY2015	FY2016
UCMH	962	720	500	3,898	2,830	1,668	4.82	3.93	3.34	22.1%	16.2%	9.5%

Sources: JARs and Internal Data

	Licensed Beds			Staffed Beds		
Facility	FY2014	FY2015	FY2016	FY2014	FY2015	FY2016
UCMH	48	48	48	13	11	11

Sources: JARs and Internal Data

Trend in UCMH Emergency Department Visits

ED Visits	FY2014	FY2015	FY2016
UCMH	8,154	7,897	7,626

Sources: JARs and Internal Data

Trend in UCMH CT Procedures

CT	FY2014	FY2015	FY2016
UCMH	2,247	2,501	2,997

Sources: JARs and Internal Data

Trend in UCMH MRI Procedures

MRI	FY2014	FY2015	FY2016
UCMH	725	698	760

Sources: JARs and Internal Data

6. Provide applicable utilization and/or occupancy statistics for your institution for each of the past three (3) years and the projected annual utilization through the two (2) years following completion of the project. Additionally, provide the details regarding the methodology used to project utilization. The methodology **must include** detailed calculations or documentation from referral sources, and identification of all assumptions.

RESPONSE:

Historical data for Unicoi County Memorial Hospital and projected utilization data for key services of the proposed replacement facility are listed below. Projections for the proposed facility were developed through collaboration between MSHA leadership and Sg2, a healthcare organization that was profiled earlier in this application. These projections are based on an internal assessment of the current market in conjunction with inpatient and outpatient projections developed by Sg2.

Inpatient Medical

The current UCMH facility is licensed for 48 acute care beds; this project proposes 10 beds for the UCMH replacement facility. The historical inpatient admissions data for the current UCMH facility and the projected data for the UCMH replacement facility are detailed in the table below.

Trends in Inpatient Medical Volume

	Historical Data			Projected Data	
UCMH	FY2014	FY2015	FY2016	Year 1 FY2020	Year 2 FY2021
Admissions	962	720	500	605	593
Patient Days	3,898	2,830	1,668	2,004	1,927
Inpatient Occupancy	22.1%	16.2%	9.5%	54.9%	52.7%
Licensed Beds	48	48	48	10	10
Staffed Beds	13	11	11	10	10

Sources: JARs and Internal Data (Historical), Sg2 and Internal Data (Projected)

Admissions are expected to drop 7% overall between 2015 and 2020 in the service area; however, more than 1,500 admissions of Unicoi County, TN residents occurred at Johnson City Medical Center (JCMC), MSHA's academic medical center and Level 1 trauma center. Many of those were low-acuity admissions that could have been treated in a community hospital setting, and as such, JCMC and UCMH will work together to place patients in the appropriate hospital setting through education of the community and local ambulance services. In addition, an increase in emergency department volume is projected for the UCMH replacement. With an admission rate of 8.2% for emergency department patients over the past three years, UCMH would see an additional 46 admissions based on the incremental emergency department visits alone projected for Year 1. As a result of the combination of increased emergency department visits and efforts for appropriate patient placement, the UCMH replacement facility is projected to reach the totals listed in the table above.

Emergency Department

UCMH currently has 7 emergency department rooms, and the replacement facility's emergency department will have 10 treatment rooms. Historical and projected volumes are provided in the following table.

Trends in Emergency Department Volume

	Historical Data			Projected Data	
UCMH	FY2014	FY2015	FY2016	Year 1 FY2020	Year 2 FY2021
ED Visits	8,154	7,897	7,626	8,186	8,350

Sources: JARs and Internal Data (Historical), Sg2 and Internal Data (Projected)

Emergency department visits are projected to decline by 4.5% in the project service area by the year 2020. However, given current market conditions, the UCMH replacement facility emergency department volumes are expected to grow in both Year 1 and Year 2 after project completion. According to THA reporting, significant volumes of emergent patients are leaving the service area to be treated at Johnson City Medical Center's (JCMC) emergency department. More than 2,000 emergent patients from Unicoi County, TN have been treated at JCMC each of the last three years, peaking at 2,854 patients in calendar year 2015. As discussed in the "Inpatient Medical" section of this response, efforts will be made between JCMC and UCMH through education of the community and local ambulance services to ensure patients present at the appropriate setting. The incremental volume listed in the table

above will be reached if 19% of those service area patients being seen at JCMC will present at their community hospital emergency department.

Diagnostic Imaging Services

UCMH currently offers both CT and MRI as part of its advanced imaging services and will continue to offer these services at the proposed replacement facility. Historical and projected volumes are provided in the following tables.

Trends in CT Volume

	Historical Data			Projected Data	
UCMH	FY2014	FY2015	FY2016	Year 1 FY2020	Year 2 FY2021
CT Volume	2,247	2,501	2,997	3,147	3,178

Sources: JARs and Internal Data (Historical), Sg2 and Internal Data (Projected)

Trends in MRI Volume

	Historical Data			Projected Data	
UCMH	FY2014	FY2015	FY2016	Year 1 FY2020	Year 2 FY2021
MRI Volume	725	698	760	798	806

Sources: JARs and Internal Data (Historical), Sg2 and Internal Data (Projected)

In the project service area, CT volumes are projected to remain relatively constant, while MRI is expected to see 1.3% growth. However, the UCMH replacement facility anticipates 5% growth for each of these services in Year 1 after project completion. A significant portion of the incremental growth will come from the growth in emergency department volume and inpatient admissions, as described above. Other growth is expected to come through targeted outreach efforts to local primary care providers who have expressed a lack of confidence in the current UCMH facility for many of the reasons described in this application, such as the age and condition of the facility along with its confusing and inefficient layout.

ECONOMIC FEASIBILITY

1. Provide the cost of the project by completing the Project Costs Chart on the following page. Justify the cost of the project.

    - All projects should have a project cost of at least $3,000 on Line F. (Minimum CON Filing Fee). CON filing fee should be calculated from Line D. (See Application Instructions for Filing Fee)

    - The cost of any lease (building, land, and/or equipment) should be based on fair market value or the total amount of the lease payments over the initial term of the lease, whichever is greater. Note: This applies to all equipment leases including by procedure or “per click” arrangements. The methodology used to determine the total lease cost for a "per click" arrangement must include, at a minimum, the projected procedures, the "per click" rate and the term of the lease.

- The cost for fixed and moveable equipment includes, but is not necessarily limited to, maintenance agreements covering the expected useful life of the equipment; federal, state, and local taxes and other government assessments; and installation charges, excluding capital expenditures for physical plant renovation or in-wall shielding, which should be included under construction costs or incorporated in a facility lease.

- For projects that include new construction, modification, and/or renovation; **documentation must be** provided from a contractor and/or architect that support the estimated construction costs.

RESPONSE:
The project costs for this proposal are identified in the Project Costs Chart below. Attachment C, Economic Feasibility 1 contains documentation support from an architect.

PROJECT COSTS CHART

A.	Construction and equipment acquired by purchase:		
	1.	Architectural and Engineering Fees	$857,537
	2.	Legal, Administrative (Excluding CON Filing Fee), Consultant Fees	$30,000
	3.	Acquisition of Site	$1,600,000
	4.	Preparation of Site	$1,117,673
	5.	Construction Costs	$11,810,531
	6.	Contingency Fund	$278,000
	7.	Fixed Equipment (Not included in Construction Contract)	$2,917,271
	8.	Moveable Equipment (A list of equipment over $50,000 is attached)	$1,293,129
	9.	Other (Specify) _____	$0
B.	Acquisition by gift, donation, or lease:		
	1.	Facility (inclusive of building and land)	$0
	2.	Building only	$0
	3.	Land only	$0
	4.	Equipment (Specify) _____	$0
	5.	Other (Specify) _____	$0
C.	Financing Costs and Fees:		
	1.	Interim Financing	$0
	2.	Underwriting Costs	$0
	3.	Reserve for One Year's Debt Service	$0
	4.	Other (Specify) _____	$0
D.	Estimated Project Cost (A+B+C)		**$19,904,141**
E.	CON Filing Fee		$95,000
F.	Total Estimated Project Cost (D+E)		
		TOTAL	**$19,999,141**

2. Identify the funding sources for this project.47

Please check the applicable item(s) below and briefly summarize how the project will be financed. ***(Documentation for the type of funding MUST be inserted at the end of the application, in the correct alpha/numeric order and identified as Attachment C, Economic Feasibility-2.)***

__ A. Commercial loan--Letter from lending institution or guarantor stating favorable initial contact, proposed loan amount, expected interest rates, anticipated term of the loan, and any restrictions or conditions;

__ B. Tax-exempt bonds--Copy of preliminary resolution or a letter from the issuing authority stating favorable initial contact and a conditional agreement from an underwriter or investment banker to proceed with the issuance;

__ C. General obligation bonds—Copy of resolution from issuing authority or minutes from the appropriate meeting.

__ D. Grants--Notification of intent form for grant application or notice of grant award; or

X E. Cash Reserves--Appropriate documentation from Chief Financial Officer.

__ F. Other—Identify and document funding from all other sources.

RESPONSE:
The project will be funded from existing cash reserves from operations at Mountain States Health Alliance. Documentation of the availability of funds to complete the project is provided in Attachment C, Economic Feasibility 2.

3. Discuss and document the reasonableness of the proposed project costs. If applicable, compare the cost per square foot of construction to similar projects recently approved by the Health Services and Development Agency.

RESPONSE:
The total cost of the proposed project equals $19,999,141 which includes all costs associated with the project. The total estimated costs relative to construction, which include architectural and engineering fees, site preparation, and actual construction, equal $13,785,741 for 41,500 square feet, or $332.19 per square foot. Attachment C, Economic Feasibility 1 contains documentation support from an architect. The total project cost is reasonable in relation to other projects recently approved by the Health Services and Development Agency. The cost per square foot of this project falls between the median and 3rd quartile as compared to recently approved CON projects. Below is a screenshot of ranges for hospital construction costs as published in the Applicant's Toolbox on the Health Services and Development Agency website.

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Hospital Construction Cost Per Square Foot

Years: 2013 – 2015

	Renovated Construction	New Construction	Total Construction
1st Quartile	$160.66/sq ft	$244.85/sq ft	$196.62/sq ft
Median	$223.91/sq ft	$308.43/sq ft	$249.67/sq ft
3rd Quartile	$297.82/sq ft	$374.32/sq ft	$330.50/sq ft

Source: CON approved applications for years 2013 through 2015

Source: Tennessee HSDA website, "Applicant's Toolbox"
https://www.tn.gov/assets/entities/hsda/attachments/Construction_Cost_Per_Square_Foot_charts.pdf

4. Complete Historical and Projected Data Charts on the following two pages--***Do not modify the Charts provided or submit Chart substitutions!*** Historical Data Chart represents revenue and expense information for the last *three (3)* years for which complete data is available for the institution. Projected Data Chart requests information for the two (2) years following the completion of this proposal. Projected Data Chart should reflect revenue and expense projections for the ***Proposal Only*** (*i.e.*, if the application is for additional beds, include anticipated revenue from the proposed beds only, not from all beds in the facility).

   Note that "Management Fees to Affiliates" should include management fees paid by agreement to the parent company, another subsidiary of the parent company, or a third party with common ownership as the applicant entity. "Management Fees to Non-Affiliates" should also include any management fees paid by agreement to third party entities not having common ownership with the applicant. Management fees should not include expense allocations for support services, e.g., finance, human resources, information technology, legal, managed care, planning marketing, quality assurance, etc. that have been consolidated/centralized for the subsidiaries of a parent company.

HISTORICAL DATA CHART

SUPPLEMENTAL #1
August 29, 2016
11:11 am

Give information for the last *three (3)* years for which complete data are available for the facility or agency. The fiscal year begins in July (Month).

		Year 2014	Year 2015	Year 2016
A.	Utilization Data - Admissions	962	720	500
B.	Revenue from Services to Patients			
1.	Inpatient Services	$12,267,269	$12,246,109	$ 7,375,813
2.	Outpatient Services	21,336,633	32,041,346	30,767,231
3.	Emergency Services	7,671,854	11,520,868	11,062,744
4.	Other Operating Revenue (Meaningful use, etc.)	1,173,420	1,049,141	573,273
	Gross Operating Revenue	**$42,449,176**	**$56,857,464**	**$49,779,062**
C.	Deductions from Gross Operating Revenue			
1.	Contractual Adjustments	$29,721,811	$46,612,143	$40,088,521
2.	Provision for Charity Care	3,399,922	1,377,713	1,217,742
3.	Provisions for Bad Debt	96,810	203,625	44,491
	Total Deductions	**$33,218,543**	**$48,193,480**	**$41,350,753**
NET OPERATING REVENUE		**$9,230,633**	**$ 8,663,984**	**$ 8,428,309**
D.	Operating Expenses			
1.	Salaries and Wages	$ 3,490,462	$ 5,373,999	$ 5,172,676
2.	Physician's Salaries and Wages	0	0	0
3.	Supplies	1,282,684	1,439,614	938,936
4.	Taxes	0	0	0
5.	Depreciation	516,735	770,598	583,477
6.	Rent	0	0	0
7.	Interest, other than Capital	650	(8)	28
8.	Management Fees:			
	a. Fees to Affiliates	2,035,870	3,114,973	2,589,192
	b. Fees to Non-Affiliates	0	0	0
9.	Other Expenses – Specify on Page 35	2,776,543	4,365,898	4,227,030
	Total Operating Expenses	**$10,102,944**	**$15,065,074**	**$13,511,338**
E.	Other Revenue (Expenses)	$ 0	$ 0	$ 0
NET OPERATING INCOME (LOSS)		**$ (872,312)**	**$(6,401,090)**	**$(5,083,029)**
F.	Capital Expenditures			
1.	Retirement of Principal	$ n/a	$ n/a	$ n/a
2.	Interest	n/a	n/a	n/a
	Total Capital Expenditures	**$ n/a**	**$ n/a**	**$ n/a**
NET OPERATING INCOME (LOSS) LESS CAPITAL EXPENDITURES		**$ (872,312)**	**$(6,401,090)**	**$(5,083,029)**

SUPPLEMENTAL #1
August 29, 2016
11:11 am

PROJECTED DATA CHART

Give information for the two (2) years following the completion of this proposal. The fiscal year begins in July (Month).

		Year 2020	Year 2021
A.	Utilization Data – Admissions	605	593
B.	Revenue from Services to Patients		
1.	Inpatient Services	10,596,751	11,126,589
2.	Outpatient Services	31,417,565	32,988,443
3.	Emergency Services	11,296,580	11,861,409
4.	Other Operating Revenue	0	0
	Gross Operating Revenue	**$53,310,896**	**$55,976,441**
C.	Deductions from Gross Operating Revenue		
1.	Contractual Adjustments	44,366,054	46,817,970
2.	Provision for Charity Care	452,484	477,491
3.	Provisions for Bad Debt	429,860	453,616
	Total Deductions	**$45,248,398**	**$47,749,077**
NET OPERATING REVENUE		**$8,062,498**	**$8,227,364**
D.	Operating Expenses		
1.	Salaries and Wages	$4,716,467	$4,763,632
2.	Physician's Salaries and Wages	0	0
3.	Supplies	937,176	955,920
4.	Taxes	0	0
5.	Depreciation	899,986	899,986
6.	Rent	0	0
7.	Interest, other than Capital	56	56
8.	Management Fees		
a.	Fees to Affiliates	1,809,621	1,845,813
b.	Fees to Non-Affiliates	0	0
9.	Other Expenses – Specify on page 35	$3,078,888	$3,310,618
	Total Operating Expenses	**$11,442,194**	**$11,776,025**
E.	Other Revenue (Expenses)	$ 0	$ 0
NET OPERATING INCOME (LOSS)		**$(3,379,696)**	**$(3,548,661)**
F.	Capital Expenditures		
1.	Retirement of Principal	$ n/a	$ n/a
2.	Interest	n/a	n/a
	Total Capital Expenditures	**$ n/a**	**$ n/a**
NET OPERATING INCOME (LOSS) LESS CAPITAL EXPENDITURES		**$(3,379,696)**	**$(3,548,661)**

SUPPLEMENTAL #1
August 29, 2016
11:11 am

HISTORAL DATA CHART – OTHER EXPENSES

OTHER EXPENSES CATEGORIES	Year 2014	Year 2015	Year 2016
1. Contract Labor	$ 612	$ 45,462	$ 67,830
2. Benefits	915,554	1,392,209	1,391,216
3. Insurance, Utilities, Other	1,860,377	2,928,227	2,767,984
4.			
5.			
6.			
7.			
Total Other Expenses	**$ 2,776,543**	**$ 4,365,898**	**$ 4,227,030**

PROJECTED DATA CHART – OTHER EXPENSES

OTHER EXPENSES CATEGORIES	Year 2020	Year 2021
1. Contract Labor	$67,950	$61,155
2. Benefits	1,242,637	1,255,063
3. Insurance, Utilities, Other	1,768,301	1,994,400
4.		
5.		
6.		
7.		
Total Other Expenses	**$3,078,888**	**$3,310,618**

5. Please identify the project's average gross charge, average deduction from operating revenue, and average net charge.

RESPONSE:
The project's charge information is as follows:

Average gross charge per patient day	$29,843
Average deduction from operating revenue	83%
Average net charge	$5,052

6. A. Please provide the current and proposed charge schedules for the proposal. Discuss any adjustment to current charges that will result from the implementation of the proposal. Additionally, describe the anticipated revenue from the proposed project and the impact on existing patient charges.

RESPONSE:
This project will not affect patient charges. No adjustments to current charges will be made as a result of this project other than those that would occur at the current facility anyway.

B. Compare the proposed charges to those of similar facilities in the service area/adjoining service areas, or to proposed charges of projects recently approved by the Health Services and Development Agency. If applicable, compare the proposed charges of the project to the current Medicare allowable fee schedule by common procedure terminology (CPT) code(s).

RESPONSE:
The charges associated with services currently provided at Unicoi County Memorial Hospital, which are reasonable in comparison to rates of other providers in the area, will not change as a result of this project.

The following chart outlines a comparison of charges per admission and average charge per day for UCMH and Sycamore Shoals Hospital (SSH), another local MSHA facility in which UCMH works closely, with those of the state average and other comparable community hospitals. As evident, the charges of MSHA facilities compare favorably with most rates in the market.

53
Trend in Charge Comparison

	Avg Charge Per Admission			Avg Charge Per Patient Day		
Facility	2013	2014	2015	2013	2014	2015
Tennessee	38,112	40,171	42,638	7,449	7,680	8,123
UCMH	15,128	22,937	18,967	2,766	5,610	5,375
Sycamore Shoals Hospital	27,693	27,616	29,250	5,993	6,181	6,456
Community Hospital A	47,120	54,309	58,412	10,883	11,503	12,088
Community Hospital B	26,080	29,179	30,535	9,816	11,062	11,452
Community Hospital C	18,274	20,681	23,978	5,731	7,050	7,406
Community Hospital D	12,078	14,376	18,165	4,603	4,649	4,745
Community Hospital E	20,086	19,460	17,856	5,020	4,911	4,692
Community Hospital F	18,467	20,616	19,565	4,082	4,409	4,539

Source: THA Market IQ

7. Discuss how projected utilization rates will be sufficient to maintain cost-effectiveness; how financial viability will be ensured within two years; and demonstrate the availability of sufficient cash flow until financial viability is achieved.

RESPONSE:
The replacement facility is projected to have a loss of ($3,379,696) in Year 1 and a loss of ($3,548,661) in year 2. This project is not expected to break even in the foreseeable future, but it will perform better financially than the current facility. More importantly, the community needs the services provided by UCMH, as demonstrated by the utilization outlined previously in this application. UCMH joined MSHA in 2013 because it could not maintain operations on its own and was on the verge of closing. Because UCMH serves a rural community that needs local healthcare services, MSHA is committed to ensuring the successful operation of a hospital in Unicoi County, TN, which would ultimately close without the support of the healthcare system.

8. Discuss how financial viability will be ensured within two years; and demonstrate the availability of sufficient cash flow until financial viability is achieved.

RESPONSE:
The replacement facility is projected to have a loss of ($3,379,696) in Year 1 and a loss of ($3,548,661) in year 2. This project is not expected to break even in the foreseeable future, but it will perform better financially than the current facility. MSHA is committed to ensuring the successful operation of a hospital in Unicoi County, TN, which would ultimately close without the support of the healthcare system. MSHA will continue to support UCMH financially through the availability of cash from earnings of the system as a whole.

9. Discuss the project's participation in state and federal revenue programs including a description of the extent to which Medicare, TennCare/Medicaid, and medically indigent patients will be served by the project. In addition, report the estimated dollar amount of revenue and percentage of total project revenue anticipated from each of TennCare, Medicare, or other state and federal sources for the proposal's first year of operation.

RESPONSE:

As with all facilities within Mountain States Health Alliance, the Unicoi County Memorial Hospital replacement facility will be committed to meeting the needs of the community and the region, and will continue the provision of medically necessary care, regardless of socioeconomic status, payor source, age, race or gender. UCMH currently participates in both Federal and State programs, including Medicare, TennCare and Medicaid programs. Medicare patients comprise approximately 50.4% of MSHA's patient revenue, TennCare/Medicaid patients make up approximately 14.7%, with another 6.6% combined from charity and self-pay. MSHA provides services to more TennCare patients than any other provider in the region and is a leading provider of charity care. UCMH's revenue by source is similar to that of MSHA overall, with more than 72% of its patient revenue coming from Medicare, TennCare/Medicaid, or Charity/Self-Pay. Trends in revenue by source for UCMH and MSHA are detailed in the table below:

	UCMH			Mountain States Health Alliance		
Revenue By Source	FY14	FY15	FY16	FY14	FY15	FY16
Medicare	36.3%	33.4%	29.1%	31.6%	29.3%	27.8%
Managed Medicare	20.2%	22.1%	24.2%	19.5%	21.7%	22.6%
Medicaid	0.3%	0.4%	0.3%	5.7%	5.2%	5.2%
TennCare	9.5%	10.9%	12.3%	9.1%	8.8%	9.5%
Commercial	24.5%	24.3%	24.3%	24.0%	25.0%	25.2%
Charity / Self Pay	7.5%	7.4%	6.4%	7.3%	7.1%	6.6%
Other Patient Revenue	1.7%	1.5%	3.3%	2.8%	2.9%	3.2%
Total Gross Patient Revenue	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Internal Data

During the first full year after project completion, the estimated dollar amount of revenue the UCMH replacement facility anticipates is $6,770,484 from TennCare/Medicaid and approximately $28,414,708 from Medicare. Together these sources account for approximately 66% of UCMH's projected revenue.

10. Provide copies of the balance sheet and income statement from the most recent reporting period of the institution and the most recent audited financial statements with accompanying notes, if applicable. For new projects, provide financial information for the corporation, partnership, or principal parties involved with the project. Copies must be inserted at the end of the application, in the correct alpha-numeric order and labeled as Attachment C, Economic Feasibility 10.

RESPONSE:

The most recent reporting period and audited balance sheets and income statements for Mountain States Health Alliance are attached (unaudited statements for Fiscal Year 2016 and audited Fiscal Year 2015 and 2014).

11. Describe all alternatives to this project which were considered and discuss the advantages and disadvantages of each alternative including but not limited to:

    a. A discussion regarding the availability of less costly, more effective, and/or more efficient alternative methods of providing the benefits intended by the proposal. If

development of such alternatives is not practicable, the applicant should justify why not; including reasons as to why they were rejected.

RESPONSE:

UCMH is an aging facility that will require significant capital dollars to maintain the physical plant in a sufficient state to care for patients. UCMH is operating well below capacity as only 11 of its 48 acute care beds are currently staffed, and the demands for healthcare services continue to shift to the outpatient setting. The layout of the current facility is not accommodating to these shifts, and large sections of the facility are significantly underutilized. Access to the facility continues to be a challenge, as it is located in a busy part of town with heavy traffic, causing delays for those trying to reach the hospital.

The construction of a 10-bed replacement hospital for UCMH will have multiple benefits, including a new state-of-the-art facility built in a more easily accessible location that will be designed to include those services that are most needed in the community. This newly designed facility will be "right-sized" to meet the demand in each patient care setting and will allow for the anticipated growth of outpatient services, along with the inclusion of space for primary care providers to aid in the efforts to improve population health.

One alternative considered to building a replacement hospital for UCMH is to maintain the status quo and continue spending large capital dollars in an attempt to maintain this facility in a state sufficient for patient care. As this facility approaches the end of its practical life span for patient care, it does not make sense to continue committing increasing amounts of capital resources to the existing facility. A significant portion of UCMH's budget in recent years has been dedicated to maintenance and repair costs alone, and the budgeted total for these costs in fiscal year 2017 is $648,000. Shifts in demand from inpatient to outpatient will also create the need for major renovation in the near future, and it would be nearly impossible to continue operations at the current facility while undertaking a renovation of the scope necessary to bring the building to current standards. This was not considered to be a feasible option.

A second alternative is to build a replacement hospital on the existing campus UCMH. Currently, there is not sufficient land at this location to build a 10-bed replacement facility without having to shut down the existing facility and relocate the patient volumes to other facilities, all of which are outside Unicoi County, during construction. Also, with the continued access problems for both patients and local EMS, it would not make sense to build a new facility in an area that is not optimal for residents of the entire service area. This was not considered to be a feasible option.

For these reasons, MSHA has decided to move forward with this proposal. By constructing a 10-bed replacement hospital for UCMH, MSHA will be maximizing its current resources in a way that prepares the health system to meet the future demands of the local community in the most cost-effective and practical matter possible.

b. The applicant should document that consideration has been given to alternatives to new construction, e.g., modernization or sharing arrangements. It should be documented that superior alternatives have been implemented to the maximum extent practicable.

RESPONSE:
MSHA has already spent significant funds to modernize UCMH; however, this facility is in such poor physical plant state, that complete modernization is either not feasible or is too cost prohibitive. MSHA has spent more than $1.6 million over the last three fiscal years in maintenance and repair costs alone for UCMH, and more than $648,000 has been budgeted for these costs in fiscal year 2017. Planned capital requests for UCMH over the next six fiscal years, as prioritized by current facility conditions, show an estimated cost of $1.05 million. The majority of the capital projects for UCMH in the coming years are for replacement of current facility infrastructure that has more than doubled its life expectancy. The undertaking of a renovation of the scope necessary to bring the building to current standards would be nearly impossible while also continuing current patient care operations. As such, MSHA believes that constructing a replacement facility at a new location is the most practical and cost-effective course of action.

CONTRIBUTION TO THE ORDERLY DEVELOPMENT OF HEALTH CARE

1. List all existing health care providers (e.g., hospitals, nursing homes, home care organizations, etc.), managed care organizations, alliances, and/or networks with which the applicant currently has or plans to have contractual and/or working relationships, e.g., transfer agreements, contractual agreements for health services.

   RESPONSE:
   Unicoi County Memorial Hospital will continue to work closely with other healthcare providers in the region, including: Mountain States Health Alliance hospitals, East Tennessee State University and the James H. Quillen College of Medicine, local nursing homes, clinics and other healthcare providers. MSHA already has existing transfer agreements with other area hospitals including those that are part of the Wellmont Health System, as well as Laughlin Memorial Hospital, as examples.

2. Describe the positive and/or negative effects of the proposal on the health care system. Please be sure to discuss any instances of duplication or competition arising from your proposal including a description of the effect the proposal will have on the utilization rates of existing providers in the service area of the project.

   RESPONSE:
   This proposal is beneficial to the health care system and will result in no negative effects from unnecessary duplication of services or competition. The projections for future utilization of the replacement hospital assume only a slight change in market share as the UCMH replacement facility expects an initial increase in admissions, which will consist primarily of lower acuity patients that are currently leaving the county to seek care at Johnson City Medical Center (JCMC), another MSHA facility. As an academic medical center and Level 1 trauma center, JCMC will welcome this shift in having these patients treated at their community hospital, which will in turn allow JCMC's open beds to be more readily available for the higher acuity patients needing more extensive services. Thus, the project will not adversely impact other providers as it is seeking to better support the current services offered in Unicoi County and to align with the shifts in demand of healthcare delivery.

This project will allow MSHA to maximize the use of its existing resources within Unicoi County by realigning UCMH with the needs of the community. By replacing an aging and underutilized facility, MSHA will be better positioned to meet those future needs of the community.

3. Provide the current and/or anticipated staffing pattern for all employees providing patient care for the project. This can be reported using FTEs for these positions. Additionally, please compare the clinical staff salaries in the proposal to prevailing wage patterns in the service area as published by the Tennessee Department of Labor & Workforce Development and/or other documented sources.

RESPONSE:

The following table details the current clinical staffing patterns for UCMH and projected clinical staffing patterns for the replacement hospital.

Position	UCMH Current	UCMH Replacement
Certified Nursing Assistant	1.9	1.9
Echo-vascular Tech	0.1	0.1
Medical Lab Technician	6.8	6.8
Medical Technologist	4.1	3.6
Monitor Technician	6.5	0.0
MRI Technologist	1.0	1.0
Nuclear Medicine Tech	0.0	1.0
Patient Care Partner	4.7	4.7
Pharmacist	1.6	1.6
Pharmacy Tech	0.9	0.9
Phlebotomist	2.5	2.0
Physical Therapist	3.0	3.0
Polysomnographer	0.7	0.0
Physical Therapy Assistant	0.9	0.9
Radiologic Technologist	8.4	8.4
Respiratory Therapist	3.8	4.8
Registered Nurse	28.7	29.8
Speech Therapist	0.1	0.1
Ultrasound Technologist	1.0	1.0
Total FTEs	76.6	71.6

Source: Internal Data

The following table includes comparisons of the clinical staff salaries associated with the UCMH replacement facility to the prevailing wage patterns as obtained from the Tennessee Department of Labor & Workforce Development.

	Mountain States Health Alliance			Tennessee Statewide		
Position	Range Min.	Average	Range Max.	Entry Level	Median	Experienced
Certified Nursing Assistant	$9.00	$13.14	$14.76	$8.80	$10.75	$12.15
Echo-vascular Tech (a)	$21.55	$30.39	$34.56	$22.20	$28.55	$32.25
Medical Lab Technician	$14.50	$21.77	$23.99	$12.05	$17.20	$20.40
Medical Technologist	$17.50	$25.90	$28.54	$21.70	$28.45	$32.40
Monitor Technician (b)	$7.88	$11.27	$13.00	$10.25	$16.75	$19.50
MRI Technologist	$18.25	$26.70	$29.75	$20.50	$27.60	$30.90
Nuclear Medicine Tech	$22.00	$31.46	$35.72	$25.35	$32.00	$34.40
Patient Care Partner (c)	$9.07	$13.40	$14.89	$11.00	$13.85	$16.05
Pharmacist	$44.00	$63.36	$70.40	$42.35	$58.15	$64.15
Pharmacy Tech	$9.52	$13.98	$15.61	$10.85	$14.00	$16.35
Phlebotomist	$10.50	$15.48	$17.24	$10.40	$12.45	$14.50
Physical Therapist	$35.09	$50.53	$56.14	$31.45	$40.75	$46.15
Physical Therapy Assistant	$18.25	$26.70	$29.75	$19.95	$26.95	$29.75
Polysomnographer (d)	$17.00	$25.30	$28.03	$16.50	$24.60	$36.40
Radiologic Technologist	$15.62	$23.27	$25.86	$18.40	$23.85	$26.95
Respiratory Therapist	$16.00	$23.65	$26.16	$19.90	$23.30	$25.90
Registered Nurse	$18.13	$26.29	$29.74	$21.00	$27.35	$31.00
Speech Therapist (e)	$27.40	$39.49	$43.84	$22.00	$32.05	$39.25
Ultrasound Technologist	$22.59	$32.52	$36.99	$16.50	$24.60	$36.40

Sources: Internal Data and TN Department of Labor & Workforce Development
(a) "Diagnostic Medical Sonographer" used for statewide data
(b) "Healthcare Support Workers – All Other" used for statewide data
(c) "Medical Assistant" used for statewide data
(d) "Health Technologists and Technicians – All Other" used for statewide data
(e) "Speech-Language Pathologist" used for statewide data

4. Discuss the availability of and accessibility to human resources required by the proposal, including adequate professional staff, as per the Department of Health, the Department of Mental Health and Substance Abuse Services, and/or the Department of Intellectual and Developmental Disabilities licensing requirements.

RESPONSE:
Mountain States Health Alliance recruits and retains staff by offering salary and benefit packages appropriate for the market. As detailed in the question related to staffing patterns, the workforce of the replacement facility will be designed to meet the healthcare needs of the community, while also aligning with the changes in the healthcare landscape being seen nationally. Staffing recruitment and retention policies are consistent throughout all Mountain States Health Alliance facilities, and the new replacement hospital will comply with these existing recruitment and retention policies and practices.

5. Verify that the applicant has reviewed and understands all licensing certification as required by the State of Tennessee for medical/clinical staff. These include, without limitation, regulations concerning physician supervision, credentialing, admission privileges, quality assurance policies and programs, utilization review *policies and programs, record keeping, and staff education.*

RESPONSE:
As an existing provider of the services proposed in the application, Mountain States Health Alliance has reviewed and understands all licensing certification as required by the State of Tennessee. Mountain States Health Alliance has policies and procedures in place governing

regulations concerning physician supervision, credentialing, admission privileges, quality assurance policies and programs, utilization review policies and programs, record keeping, and staff education.

6. Discuss your health care institution's participation in the training of students in the areas of medicine, nursing, social work, etc. (*e.g.,* internships, residencies, etc.).

RESPONSE:
Several Mountain States Health Alliance facilities, including Unicoi County Memorial Hospital, have developed affiliations and relationships where there is participation in the training of students. Where applicable, the replacement facility will continue this practice. Examples of existing relationships include affiliations with the James H. Quillen College of Medicine, East Tennessee State University, located in Johnson City, TN, and other area colleges and universities in the training of students, including nurses, radiology technologists and respiratory therapists. Mountain States Health Alliance facilities are training sites for nursing programs at East Tennessee State University, King University, Milligan College, Northeast State Community College, and several other local colleges. Nursing training programs include rotations through various clinical units at MSHA facilities.

7. (a) Please verify, as applicable, that the applicant has reviewed and understands the licensure requirements of the Department of Health, the Department of Mental Health and Developmental Disabilities, the Division of Mental Retardation Services, and/or any applicable Medicare requirements.

RESPONSE:
The proposed project will comply as applicable with licensure requirements of the Department of Health and any applicable Medicare requirements. The facility will not provide any services that require licensure by the Department of Mental Health and Developmental Disabilities or the Division of Mental Retardation Services.

(b) Provide the name of the entity from which the applicant has received or will receive licensure, certification, and/or accreditation.

RESPONSE:
Licensure:

Unicoi County Memorial Hospital is currently licensed as a general acute care hospital by the Tennessee Department of Health Board for Licensing Health Care Facilities, and as such, the UCMH replacement facility will seek similar licensing.

Accreditation:

Unicoi County Memorial Hospital is accredited as a general acute care hospital by The Joint Commission (TJC). The UCMH replacement facility will be completed and operational within the timeframe of TJC's 3-year accreditation schedule, and as such, the replacement facility will inherit the current facility's accreditation. The replacement facility will seek reaccreditation at the appropriate time.

(c) If an existing institution, please describe the current standing with any licensing, certifying, or accrediting agency. Provide a copy of the current license of the facility.

RESPONSE:
Unicoi County Memorial Hospital is currently licensed by the Tennessee Department of Health Board of Licensing Health Care Facilities and accredited by The Joint Commission (TJC). A copy of the license for the current facility and copy of TJC Official Accreditation Report Summary Statement are attached.

(d) For existing licensed providers, document that all deficiencies (if any) cited in the last licensure certification and inspection have been addressed through an approved plan of correction. Please include a copy of the most recent licensure/certification inspection with an approved plan of correction. Please also discuss what measures the applicant has or will put in place to avoid being cited for similar deficiencies in the future.

RESPONSE:
A copy of UCMH's most recent TJC Official Accreditation Report Summary Statement is attached, and as described in this report, UCMH is compliant with all of the listed requirements for improvement.

8. Document and explain any final orders or judgments entered in any state or country by a licensing agency or court against professional licenses held by the applicant or any entities or persons with more than a 5% ownership interest in the applicant. Such information is to be provided for licenses regardless of whether such license is currently held.

RESPONSE:
There are no final civil or criminal judgments for fraud or theft against any person or entity with more than a 5% ownership interest in the project.

9. Identify and explain any final civil or criminal judgments for fraud or theft against any person or entity with more than a 5% ownership interest in the project

RESPONSE:
There are no final civil or criminal judgments for fraud or theft against any person or entity with more than a 5% ownership interest in the project.

10. If the proposal is approved, please discuss whether the applicant will provide the Tennessee Health Services and Development Agency and/or the reviewing agency information concerning the number of patients treated, the number and type of procedures performed, and other data as required.

RESPONSE:
The applicant will, if approved, provide the Tennessee Health Services and Development Agency and/or the reviewing agency information concerning the number of patients treated, the number and type of procedures performed, and other data as requested.

PROOF OF PUBLICATION

Attach the full page of the newspaper in which the notice of intent appeared with the mast and dateline intact or submit a publication affidavit from the newspaper as proof of the publication of the letter of intent.

The full page of the newspaper in which the notice of intent appeared, with mast and dateline intact, is attached.

DEVELOPMENT SCHEDULE

Tennessee Code Annotated § 68-11-1609(c) provides that a Certificate of Need is valid for a period not to exceed three (3) years (for hospital projects) or two (2) years (for all other projects) from the date of its issuance and after such time shall expire; provided, that the Agency may, in granting the Certificate of Need, allow longer periods of validity for Certificates of Need for good cause shown. Subsequent to granting the Certificate of Need, the Agency may extend a Certificate of Need for a period upon application and good cause shown, accompanied by a non-refundable reasonable filing fee, as prescribed by rule. A Certificate of Need which has been extended shall expire at the end of the extended time period. The decision whether to grant such an extension is within the sole discretion of the Agency, and is not subject to review, reconsideration, or appeal.

1. **Please complete the Project Completion Forecast Chart on the next page. If the project will be completed in multiple phases, please identify the anticipated completion date for each phase.**

2. **If the response to the preceding question *indicates that the applicant does not anticipate completing the project within the period of validity as defined in the preceding paragraph,* please state below any request for an extended schedule and document the "good cause" for such an extension.**

Form HF0004
Revised 08/01/2012
Previous Forms are obsolete

SUPPLEMENTAL #1
August 29, 2016
11:11 am

PROJECT COMPLETION FORECAST CHART

Enter the Agency projected Initial Decision date, as published in T.C.A. § 68-11-1609(c): 12/14/2016

Assuming the CON approval becomes the final agency action on that date; indicate the number of days **from the above agency decision date** to each phase of the completion forecast.

Phase	DAYS REQUIRED	Anticipated Date (MONTH/YEAR)
1. Architectural and engineering contract signed	7	12/2016
2. Construction documents approved by the Tennessee Department of Health	28	1/2017
3. Construction contract signed	35	1/2017
4. Building permit secured	210	7/2017
5. Site preparation completed	216	7/2017
6. Building construction commenced	210	7/2017
7. Construction 40% complete	318	10/2017
8. Construction 80% complete	426	2/2018
9. Construction 100% complete (approved for occupancy)	481	4/2018
10. *Issuance of license	511	5/2018
11. *Initiation of service	541	6/2018
12. Final Architectural Certification of Payment	571	7/2018
13. Final Project Report Form (HF0055)	601	8/2018

*** For projects that do NOT involve construction or renovation: Please complete items 10 and 11 only.**

Note: If litigation occurs, the completion forecast will be adjusted at the time of the final determination to reflect the actual issue date.

State of Tennessee
Health Services and Development Agency
Andrew Jackson Building, 9th Floor
502 Deaderick Street
Nashville, TN 37243
www.tn.gov/hsda Phone: 615-741-2364 Fax: 615-741-9884

LETTER OF INTENT

The Publication of Intent is to be published in the Erwin Record (Name of Newspaper) which is a newspaper of general circulation in Unicoi (County), Tennessee, on or before August 10th (Month / day), 2016 (Year), for one day.

This is to provide official notice to the Health Services and Development Agency and all interested parties, in accordance with T.C.A. § 68-11-1601 *et seq.*, and the Rules of the Health Services and Development Agency, that:

Unicoi County Memorial Hospital (Name of Applicant) a hospital (Facility Type-Existing)

owned by: Mountain States Health Alliance with an ownership type of Not-for-Profit Corporation

and to be managed by: itself intends to file an application for a Certificate of Need for: the relocation and replacement of the existing hospital. The replacement facility will include 10 acute care beds and an emergency department with 10 treatment rooms. The replacement facility will be located at an unaddressed site on Temple Hill Road, Erwin, TN 37650. The project will result in the relocation of all other current services to the new facility, and no major services will be initiated or discontinued. The replacement facility will occupy 41,500 square feet. The estimated project cost is $19,999,141.

The anticipated date of filing the application is: August 15th, 2016

The contact person for this project is Allison Rogers (Contact Name) VP, Strategic Planning (Title)

who may be reached at: Mountain States Health Alliance (Company Name) 303 Med Tech Parkway, Suite #330 (Address)

Johnson City (City)	TN (State)	37604 (Zip Code)	423/302-3378 (Area Code / Phone Number)
Allison M. Rogers (Signature)		8/9/2016 (Date)	RogersAM@msha.com (E-mail Address)

The Letter of Intent must be filed in triplicate and received between the first and the tenth day of the month. If the last day for filing is a Saturday, Sunday or State Holiday, filing must occur on the preceding business day. File this form at the following address:

Health Services and Development Agency
Andrew Jackson Building, 9th Floor
502 Deaderick Street
Nashville, Tennessee 37243

The published Letter of Intent must contain the following statement pursuant to T.C.A. § 68-11-1607(c)(1). (A) Any health care institution wishing to oppose a Certificate of Need application must file a written notice with the Health Services and Development Agency no later than fifteen (15) days before the regularly scheduled Health Services and Development Agency meeting at which the application is originally scheduled; and (B) Any other person wishing to oppose the application must file written objection with the Health Services and Development Agency at or prior to the consideration of the application by the Agency.

Mountain States Health Alliance
Unicoi County Memorial Hospital Replacement Hospital Project
Certificate of Need Application Attachments

Attachment A.3: Corporate Charter and Certificate of Corporate Existence

Attachment A.4: Organizational Structure

Attachment A.6: Title / Deed / Legal Interest in Site

Attachment B.III.(A) & B.IV: Plot Plan & Floor Plans

Attachment C, Need 3: Service Area Maps

Attachment C, Need 4: Service Area Demographic Snapshot

Attachment C, Economic Feasibility 1: Construction Costs Documentation and List of Equipment

Attachment C, Economic Feasibility 2: Letter of Available Funds

Attachment C, Economic Feasibility 10: Unaudited Financial Statements (FY2016) and Most Recent Audited Statements (FY2014 and FY2015) for Mountain States Health Alliance

Attachment C, Contribution to the Orderly Development of Health Care 7(B): Hospital License and Accreditation Report Summary Statement

Attachment C, Proof of Publication: Publication of Intent, The Erwin Record

Attachment: Affidavit for Application

ATTACHMENT B.III. (A) & B.IV.

1. Plot Plan
2. Floor Plans

SITE PLAN

ESa | **UNICOI COUNTY MEMORIAL HOSPITAL**

Mountain States Health Alliance - 08/02/16

FLOOR PLAN

ESa | **UNICOI COUNTY MEMORIAL HOSPITAL**

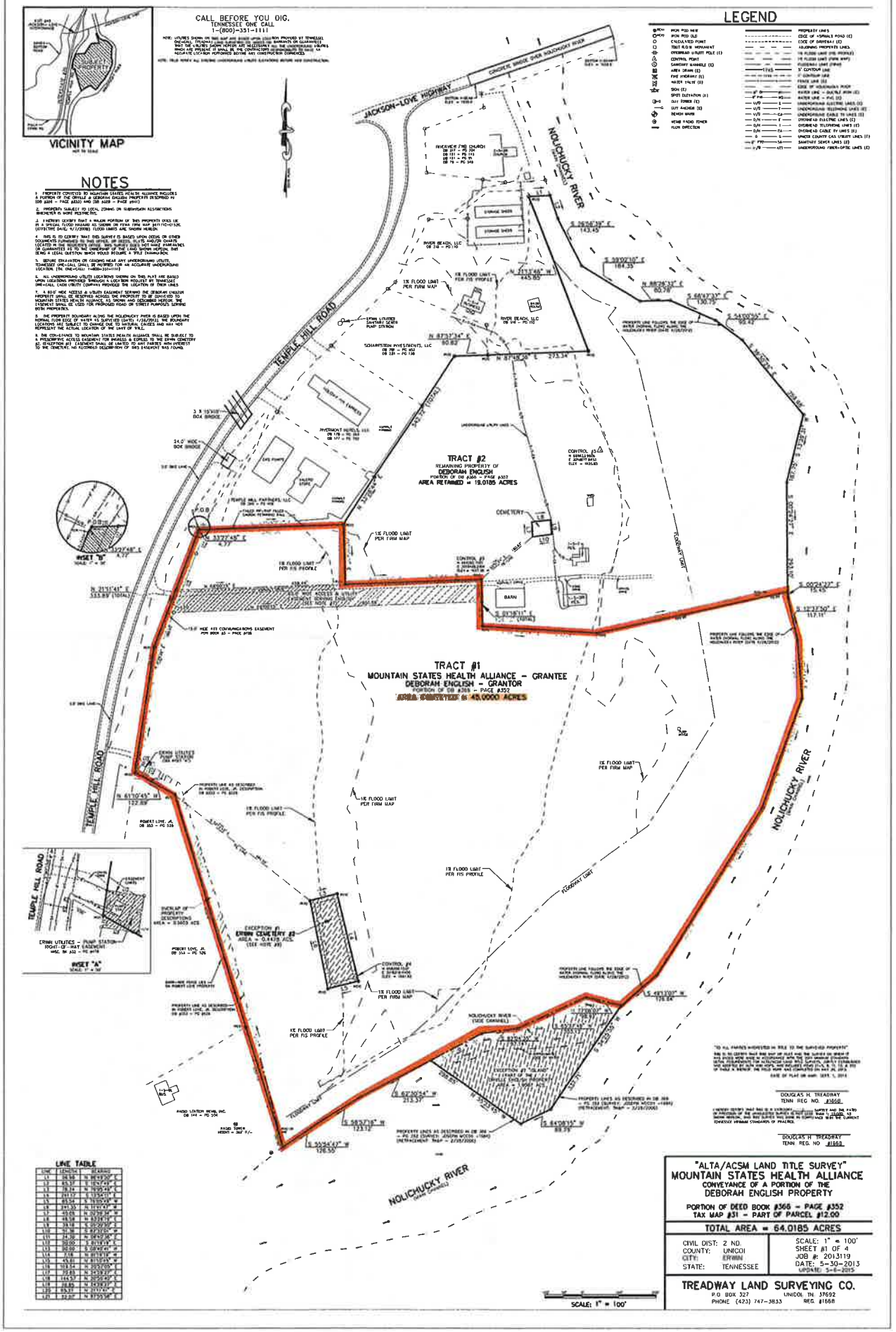
Mountain States Health Alliance - 08/02/16

ESa

UNICOI COUNTY MEMORIAL HOSPITAL

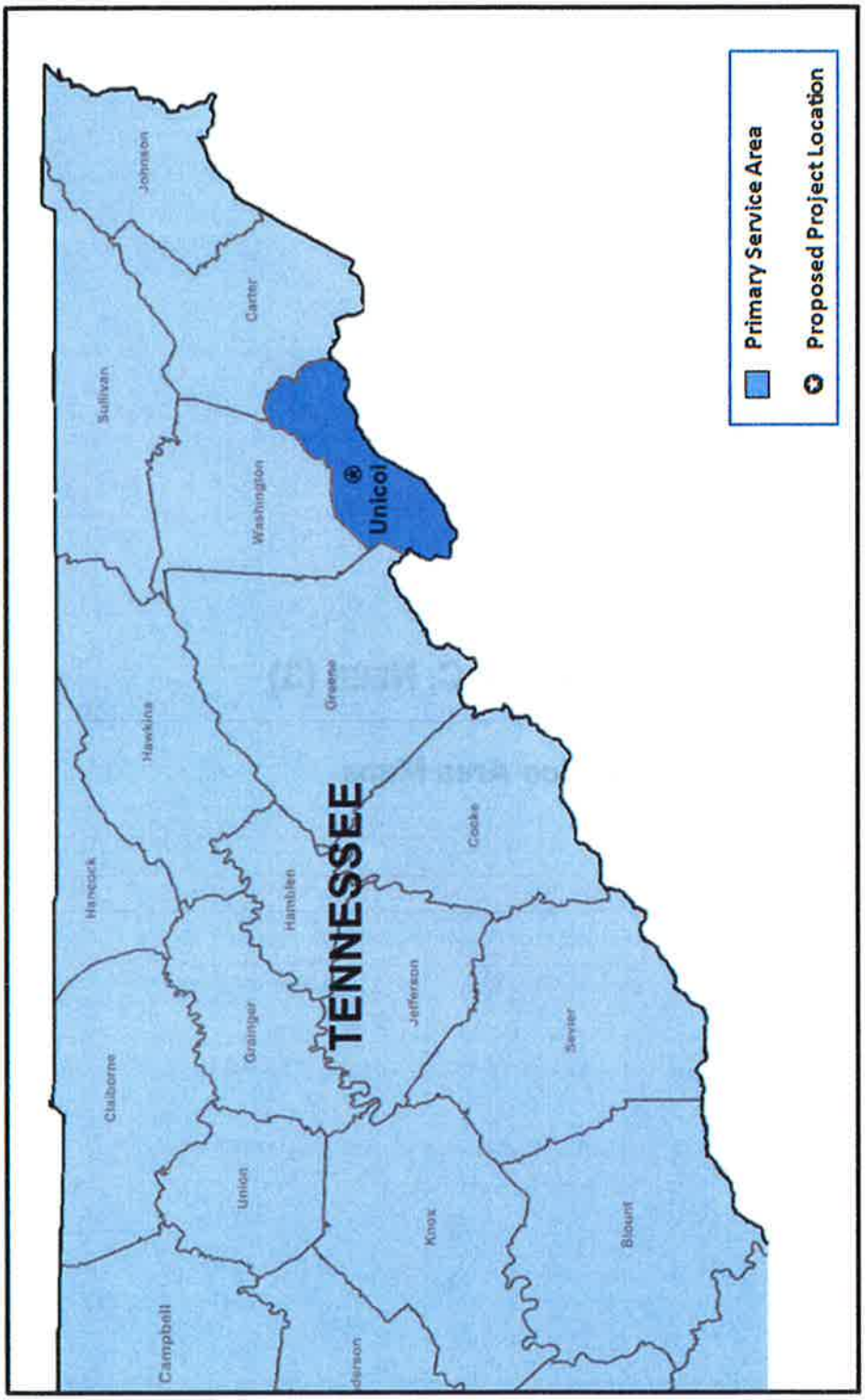
Mountain States Health Alliance - 08/02/16

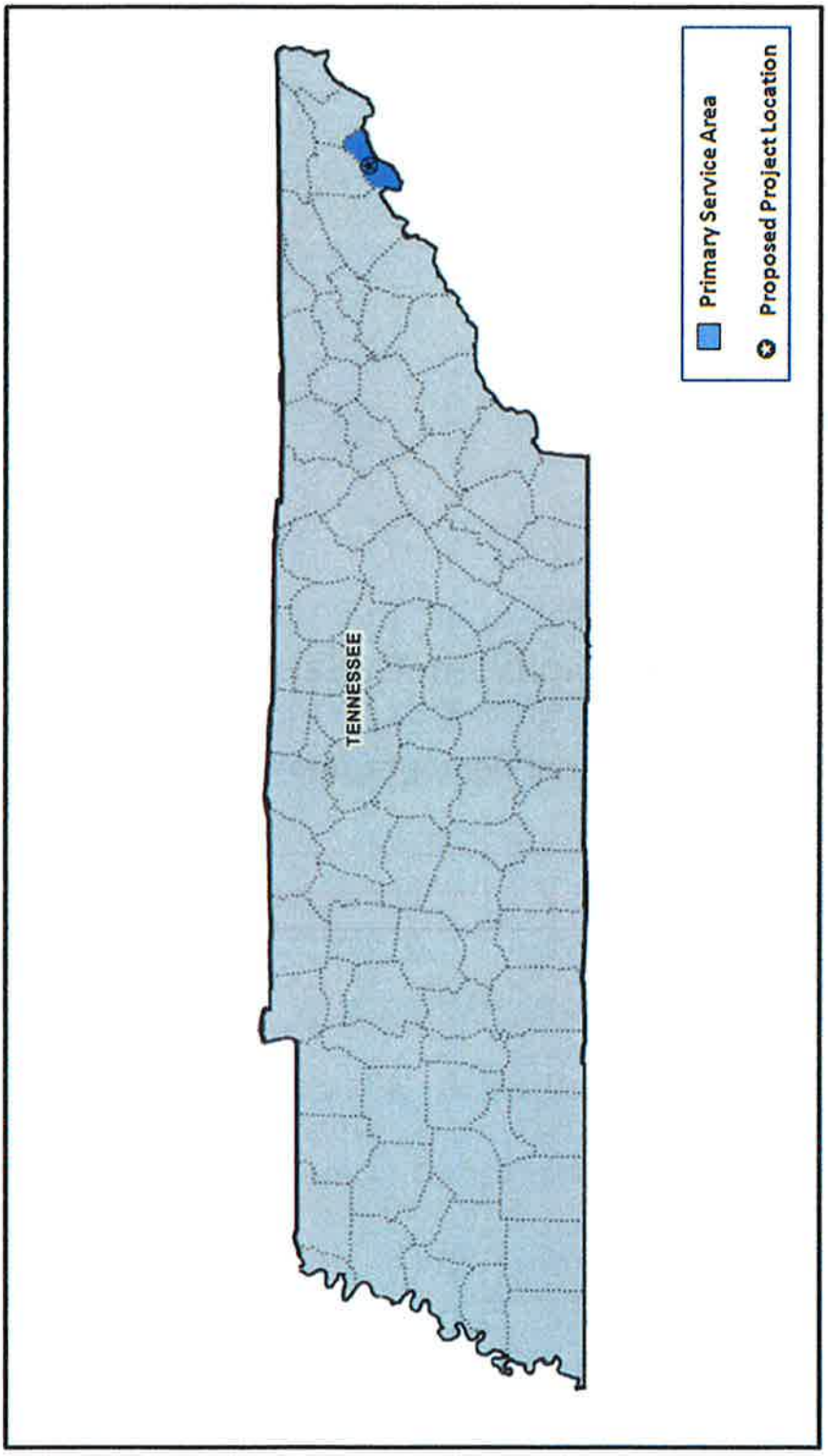
PLOT PLAN



ATTACHMENT C, NEED (3)

Service Area Maps


Primary Service Area
Proposed Project Location
TENNESSEE
Unicoi
Johnson
Carter
Sullivan
Washington
Greene
Hawkins
Hancock
Hamblen
Cocke
Claiborne
Grainger
Jefferson
Sevier
Union
Knox
Blount
Campbell


Primary Service Area
Proposed Project Location
TENNESSEE

ATTACHMENT C, NEED (4)

Service Area Demographic Snapshot

Sg2 MARKET SNAPSHOT

health care intelligence

Mountain State Health Alliance
UCMH Replacement Facility Service Area
Demographic Snapshot

Population and Gender	Market 2016 Population	Market 2016 % of Total	Market 2021 Population	Market 2021 % of Total	Market Population % Change	National 2016 % of Total
Female Population	9,086	50.8%	9,014	50.8%	(0.8)%	50.8%
Male Population	8,793	49.2%	8,723	49.2%	(0.8)%	49.3%
Total	17,879	100.0%	17,737	100.0%	(0.8)%	100.0%

Age Groups	Market 2016 Population	Market 2016 % of Total	Market 2021 Population	Market 2021 % of Total	Market Population % Change	National 2016 % of Total
00-17	3,359	18.8%	3,101	17.5%	(7.7)%	23.0%
18-44	5,223	29.2%	5,139	29.0%	(1.6)%	35.8%
45-64	5,264	29.4%	5,036	28.4%	(4.3)%	26.1%
65-UP	4,033	22.6%	4,461	25.2%	10.6%	15.1%
Total	17,879	100.0%	17,737	100.0%	(0.8)%	100.0%

Ethnicity/Race	Market 2016 Population	Market 2016 % of Total	Market 2021 Population	Market 2021 % of Total	Market Population % Change	National 2016 % of Total
Asian & Pacific Is. Non-Hispanic	51	0.3%	69	0.4%	35.3%	5.5%
Black Non-Hispanic	85	0.5%	131	0.7%	54.1%	12.3%
Hispanic	811	4.5%	932	5.3%	14.9%	17.8%
White Non-Hispanic	16,688	93.3%	16,329	92.1%	(2.2)%	61.3%
All Others	244	1.4%	276	1.6%	13.1%	3.1%
Total	17,879	100.0%	17,737	100.0%	(0.8)%	100.0%

Language*	Market 2016 Population	Market 2016 % of Total	Market 2021 Population	Market 2021 % of Total	Market Population % Change	National 2016 % of Total
Germanic Lang at Home	35	0.2%	34	0.2%	(2.9)%	0.5%
Only English at Home	16,275	95.2%	16,162	95.3%	(0.7)%	79.0%
Other Indo-European Lang at Home	36	0.2%	36	0.2%	0.0%	1.8%
Other Lang at Home	22	0.1%	23	0.1%	4.6%	0.9%
Spanish at Home	700	4.1%	690	4.1%	(1.4)%	13.1%
All Others	20	0.1%	17	0.1%	(15.0)%	4.7%
Total	17,088	100.0%	16,962	100.0%	(0.7)%	100.0%

Household Income	Market 2016 Households	Market 2016 % of Total	Market 2021 Households	Market 2021 % of Total	Market Households % Change	National 2016 % of Total
<$15K	1,349	17.9%	1,287	17.2%	(4.6)%	12.3%
$15-25K	1,513	20.1%	1,421	19.0%	(6.1)%	10.4%
$25-50K	2,058	27.3%	2,075	27.8%	0.8%	23.4%
$50-75K	1,127	15.0%	1,117	15.0%	(0.9)%	17.6%
$75-100K	667	8.9%	662	8.9%	(0.8)%	12.0%
$100K-200K	717	9.5%	789	10.6%	10.0%	18.6%
>$200K	99	1.3%	113	1.5%	14.1%	5.7%
Total	7,530	100.0%	7,464	100.0%	(0.9)%	100.0%

Education Level**	Market 2016 Population	Market 2016 % of Total	Market 2021 Population	Market 2021 % of Total	Market Population % Change	National 2016 % of Total
Less than High School	1,427	10.8%	1,436	10.9%	0.6%	5.8%
Some High School	1,672	12.7%	1,687	12.8%	0.9%	7.8%
High School Degree	5,284	40.1%	5,302	40.1%	0.3%	27.9%
Some College/Assoc. Degree	3,210	24.4%	3,197	24.2%	(0.4)%	31.1%
Bachelor's Degree or Greater	1,592	12.1%	1,591	12.0%	(0.1)%	27.4%
Total	13,185	100.0%	13,213	100.0%	0.2%	100.0%

***Excludes population age <5, **Excludes population age <25**

Source: Nielsen Pop-Facts© 2016

ATTACHMENTS C, ECONOMIC FEASIBILITY (1)

Architect Documentation for Support of Estimated Construction Costs and List of Equipment

ESa

Moving forward together to create environments that shape lives.

August 8, 2016

Ms. Melanie Hill, Executive Director
State of Tennessee
Health Services and Development Agency
Andrew Jackson Building, 9th Floor
502 Deaderick Street
Nashville, TN 37243

RE: UNICOI COUNTY MEMORIAL HOSPITAL
ERWIN, TN
ESa PROJECT NO. 16085.00

Dear Ms. Hill:

This letter will denote that ESa has reviewed the site preparation and construction costs indicated as $1,117,673 and $11,810,531 for the referenced project and find the costs to be reasonable for the described scope of work. The construction costs have considered recent market conditions and inflation projections. We have also estimated Architectural and Engineering Fees of $857,537 for the project.

Best Regards,
EARL SWENSSON ASSOCIATES, INC.

Richard L. Miller, FAIA, EDAC
CEO/President/Principal

ESa

Moving forward together to create environments that shape lives.

August 8, 2016

Ms. Melanie Hill, Executive Director
State of Tennessee
Health Services and Development Agency
Andrew Jackson Building, 9th Floor
502 Deaderick Street
Nashville, TN 37243

RE: UNICOI COUNTY MEMORIAL HOSPITAL
ERWIN, TN
ESa PROJECT NO. 16085.00

Dear Ms. Hill:

This letter will affirm that, to the best of our knowledge, the design intended for the construction of the referenced facility will be in accordance with the following primary codes and standards as listed in the Rules of Tennessee Department of Health Board for Licensing Health Care Facilities - Standards for Hospitals - Chapter 1200-8-1-.08:

- Current edition of Rules of Tennessee Department of Health and Environment Board for Licensing Healthcare Facilities
- 2012 International Building Code
- 2012 National Fire Protection Code (NFPA) NFPA 1 including Annex A which incorporates the 2012 edition of the Life Safety Code
- 2012 International Mechanical Code
- 2012 International Plumbing Code
- 2012 International Fuel Gas Code
- 2010 FGI Guidelines for the Design and Construction of Healthcare Facilities
- 2011 National Electrical Code
- 2009 U.S. Public Health Service Code
- The handicap code as required by T.C.A. §68-120-204(a) for all new and existing facilities are subject to the requirements of the 1999 North Carolina Handicapped Accessibility Codes with 2004 Amendments and 2010 American with Disabilities Act (A.D.A.)

This listing may not be entirely inclusive, but the intent is for all applicable codes and standards, State or Local, to be addressed during the design process.

Best Regards,
EARL SWENSSON ASSOCIATES, INC.

Richard L. Miller, FAIA, EDAC
CEO/President/Principal

Fixed Equipment	$ 2,917,271.12
Moveable Equipment	$ 1,293,128.88
	$ 4,210,400.00

Fixed Equipment

Description	Type	Model #	Mfg.	Qty	Unit	Extended
CT		64 Slice	GE	1	$ 500,000.00	$ 500,000.00
MRI		1.5T	GE	1	$ 1,250,000.00	$ 1,250,000.00
Nuc Med			Siemens	1	$ 300,000.00	$ 300,000.00
R/F Room	Digital			1	$ -	$ -
Rad Room	Digital			1	$ -	$ -
Mammography				1	$ -	$ -
Tube Station			PEVCO	5	$ 26,000.00	$ 130,000.00
Nurse Call			West Call	5	$ 75,000.00	$ 375,000.00
Lab Analyzer	Chemistry			1	$ 147,768.12	$ 147,768.12
Wall Bracket	Monitor	VHM	GCX	25	$ 975.00	$ 24,375.00
Wall Bracket	Television	Peerless Industries	JMW-650	25	$ 175.00	$ 4,375.00
Dispenser	Glove	8556-H	Kendall/Tyco	32	$ 50.00	$ 1,600.00
Lab Analyzer	Hematology		Beckman	1	$ 55,000.00	$ 55,000.00
Warming Cabinet	Blanket/Fluid		Steris	3	$ 8,736.00	$ 26,208.00
Microwave	Under Counter			10	$ 145.00	$ 1,450.00
Coffee Maker				10	$ 400.00	$ 4,000.00
Ice Maker				10	$ 5,500.00	$ 55,000.00
Refrigerator	Staff			5	$ 650.00	$ 3,250.00
Refrigerator	Patient			5	$ 549.00	$ 2,745.00
Clocks				25	$ 125.00	$ 3,125.00
Television				25	$ 895.00	$ 22,375.00
Wardrobe	Wall Mount			10	$ 250.00	$ 2,500.00
Wire Rack	Wall Mount			10	$ 250.00	$ 2,500.00
Dressing Nook				10	$ 250.00	$ 2,500.00
Marker Board				10	$ 100.00	$ 1,000.00
Lockers	Staff			25	$ 100.00	$ 2,500.00
						$ 2,917,271.12

Mobile under $50K

Description	Type	Model #	Mfg.	Qty	Unit	Extended
Bed	Med/Surg	Care Assist	Hill-Rom	10	$ 5,000.00	$ 50,000.00
Chair	Bedside		Hill-Rom	10	$ 660.00	$ 6,600.00
Recliner/Sleeper	Patient		Hill-Rom	10	$ 1,800.00	$ 18,000.00
Stretcher	ED/Transport	Prime	Stryker	15	$3,850.00	$57,750.00
Cabinet	Bedside	Elite	Hill-Rom	10	$ 550.00	$ 5,500.00
Flowmeter	Air	715-8MFA2005PTO	Tri-Anim	25	$ 42.50	$ 1,062.50
Flowmeter	Oxygen	715-8MFA1005	Tri-Anim	25	$ 29.90	$ 747.50
Rapid Infusor	Blood		Belmont	1	$ 17,500.00	$ 17,500.00
Misc Minor Equip				1	$ 4,575.00	$ 4,575.00
X-ray	Portable		GE	1	$ 145,000.00	$ 145,000.00
Physiologic Monitor	Critical Care	Delta XL	Draeger Medical	5	$ 20,750.00	$ 103,750.00
Central Monitors	16 Trace	MultiView	Draeger Medical	1	$ 31,125.00	$ 31,125.00
Defibrillators	Biphasic	LIFEPAK 20	Medtronic	2	$ 11,361.44	$ 22,722.88
EKG Machine	12-lead		Mortara	1	$ 6,500.00	$ 6,500.00
Thermometers		2185BX01EE	Alaris	5	$ 239.00	$ 1,195.00
Glucometers			Life Scan	3	$ 895.00	$ 2,685.00
Infusion Pump	Single	Sigma	Baxter	0	$ 4,345.00	$ -
IV Poles				0	$199.00	$0.00
Suction Regulator	Intermittent	715-PM3015	Tri-Anim	25	$ 395.00	$ 9,875.00
Wheelchairs	Regular			5	$ 428.00	$ 2,140.00
Wheelchairs	Bariatric			2	$ 628.00	$ 1,256.00
Carts	Crash			2	$ 1,100.00	$ 2,200.00
Carts	Linen			3	$ 1,100.00	$ 3,300.00
Carts	Supply			3	$ 560.00	$ 1,680.00
Hampers	Linen			20	$ 200.00	$ 4,000.00
Overbed Table				25	$ 245.00	$ 6,125.00
Waste Can	Biohazard			50	$ 108.00	$ 5,400.00
Waste Can	Regular			50	$ 32.00	$ 1,600.00
Waste Can	36 Gal.			5	$ 88.00	$ 440.00
Dietary	Assorted Eq	Carts/Trays, etc.		1	$ 300,000.00	$ 300,000.00
						$ 812,728.88
Owner Provided	Allowance	FF & E		1	$ 210,400.00	$ 210,400.00
						$ 1,023,128.88

Mobile 80 over $50k

Description	Type	Model #	Mfg.	Qty	Unit	Extended
Ultrasound		Logiq 9	GE	1	$ 140,000.00	$ 140,000.00
C-Arm	Digital	9900	OEC	1	$ 130,000.00	$ 130,000.00
Med Station			Omnicell	0	$ 71,652.00	$ -
						$ 270,000.00

ATTACHMENTS C, ECONOMIC FEASIBILITY (2)

Letter of Available Funds

MOUNTAIN STATES HEALTH ALLIANCE

400 N. State of Franklin Road • Johnson City, TN 37604
423-431-6111

August 10, 2016

Health Services and Development Agency
502 Deaderick Street
Andrew Jackson Bldg., 9th Floor
Nashville, TN 37243

Dear Agency Members:

This letter is to certify that Mountain States Health Alliance has sufficient cash of $19,999,141 to fund the project, as described in the certificate of need application, for the construction of a 10-bed acute care replacement facility, which will also include an emergency department with 10 treatment rooms, for Unicoi County Memorial Hospital to be located at an unaddressed site on Temple Hill Road, Erwin (Unicoi County), TN 37650.

Sincerely,

Lynn Krutak

Lynn Krutak
Senior Vice President / Chief Financial Officer

ATTACHMENT C, ECONOMIC FEASIBILITY (10)

Balance Sheet and Income Statement for Mountain States Health Alliance

1. **Most Recent Reporting Period (FY2016)**
2. **Most Recent Audited Statements (FY2015 and FY2014)**

Mountain States Health Alliance
Consolidated Balance Sheet
At June 30, 2016

	Consolidated	Eliminations	JCMC	FWCH	NSH	WOOD	IPMC	SSH	UC	JCCH
ASSETS										
CURRENT ASSETS										
Cash and Cash Equivalents	89,753,181	0	75,429	289,120	(238,975)	250	38,790	27,470	12,033	5,502
Current Portion AWUIL	25,771,897	0	0	0	0	0	0	0	0	0
Accounts Receivable (Net)	155,216,936	0	64,266,491	11,617,355	0	2,703,901	11,396,654	6,104,999	1,968,246	645,115
Other Receivables	32,291,409	(6,433,000)	3,054,810	208,931	0	1,251,914	509,608	381,053	216,379	104,612
Due From Affiliates	1,435	(26,748,503)	1,512,296	42,752	(0)	1,641	270,591	281,065	28,432	13,864
Due From Third Party Payors	(0)	1,670,475	(4,642,925)	(40,948)	0	550,148	142,835	(45,122)	(24,510)	(1,415,085)
Inventories	26,630,407	0	10,822,280	1,925,145	0	149,915	2,411,748	1,286,256	307,763	106,827
Prepaid Expense	8,267,700	0	1,992,014	469,029	0	32,658	376,841	164,781	70,670	21,738
	337,932,964	(31,511,028)	77,080,395	14,511,385	(238,975)	4,690,427	15,147,067	8,200,502	2,579,013	(517,426)
ASSETS WHOSE USE IS LIMITED	16,937,434	0	0	0	0	0	0	0	0	0
OTHER INVESTMENTS	608,885,873	0	0	0	0	0	0	0	0	0
PROPERTY, PLANT AND EQUIPMENT										
Land, Buildings and Equipment	1,711,449,705	0	576,881,710	144,523,845	7,330,172	13,069,516	111,922,675	48,375,381	5,849,838	10,090,351
Less Allowances for Depreciation	880,624,466	0	350,608,607	46,995,088	5,303,766	6,377,265	71,383,956	29,280,429	2,253,184	6,283,410
	830,825,239	0	226,273,103	97,528,757	2,026,406	6,692,251	40,538,720	19,094,953	3,596,654	3,806,940
OTHER ASSETS										
Pledges Receivable	2,957,802	0	0	0	0	0	0	0	0	0
Long Term Compensation Investment	26,331,578	0	5,000	0	0	0	0	0	0	0
Investments in Unconsolidated Subsidiaries	7,249,898	0	0	0	0	0	0	0	0	0
Land / Equipment Held for Resale	7,495,973	0	4,574,324	0	0	0	0	0	0	0
Assets Held for Expansion	11,361,384	0	936,711	0	0	0	0	0	1,595,597	0
Investments in Subsidiaries	0	(427,422,063)	0	0	0	0	0	0	0	0
Goodwill	156,565,204	0	13,141,003	0	0	0	(1,442,410)	0	0	0
Deferred Charges and Other	22,023,693	0	153,078	122,574	0	0	0	865	0	0
	233,985,533	(427,422,063)	18,810,115	122,574	0	0	(1,442,410)	865	1,595,597	0
TOTAL ASSETS	2,028,567,044	(458,933,091)	322,163,613	112,162,716	1,787,432	11,382,678	54,243,377	27,296,319	7,771,264	3,289,514
LIABILITIES AND NET ASSETS										
CURRENT LIABILITIES										
Accounts Payable and Accrued Expense	91,094,015	0	27,064,116	4,206,864	0	899,000	4,024,590	2,023,118	921,088	402,095
Accrued Salaries, Benefits, and PTO	68,722,074	0	16,188,151	2,648,770	0	930,298	3,860,409	2,205,132	738,981	515,033
Claims Payable	4,414,252	0	0	0	0	0	0	0	0	0
Accrued Interest	13,585,982	0	4,739,460	1,804,221	0	28,676	445,963	195,990	0	3,272
Due to Affiliates	0	(26,748,503)	1,248,065	67,025	(0)	112,366	852,724	182,247	32,161	507
Due to Third Party Payors	9,149,508	1,670,475	1,868,878	1,437	0	0	376,358	525,221	0	22,115
Call Option Liability	0	0	0	0	0	0	0	0	0	0
Current Portion of Long Term Debt	23,382,270	(6,433,000)	152,400	533,400	0	0	0	0	0	0
	210,348,102	(31,511,028)	51,261,070	9,261,717	(0)	1,970,341	9,560,044	5,131,709	1,692,230	943,022
OTHER NON CURRENT LIABILITIES										
Long Term Compensation Payable	12,760,043	0	0	0	0	0	0	0	0	0
Long Term Debt	963,853,190	0	2,805,176	10,621,576	0	0	0	0	0	0
Estimated Fair Value of Interest Rate Swaps	4,482,751	0	0	0	0	0	0	0	0	0
Deferred Income	10,476,431	0	0	0	0	0	(0)	(0)	0	0
Professional Liability Self-Insurance and Other	18,293,608	0	2,808,627	280,158	(0)	102,506	584,038	253,805	32,727	61,772
	1,009,866,024	0	5,613,804	10,901,734	(0)	102,507	584,038	253,804	32,727	61,772
TOTAL LIABILITIES	1,220,214,126	(31,511,028)	56,874,873	20,163,451	(0)	2,072,847	10,144,082	5,385,513	1,724,957	1,004,794
NET ASSETS	607,047,362	(669,634,828)	265,288,740	91,999,265	1,787,432	9,309,831	44,099,295	21,910,806	6,046,307	2,284,720
NONCONTROLLING INTEREST IN SUBSIDIARIES	201,305,556	242,212,765	0	0	0	0	0	0	0	0
TOTAL LIABILITIES AND NET ASSETS	2,028,567,044	(458,933,091)	322,163,613	112,162,716	1,787,432	11,382,678	54,243,377	27,296,319	7,771,264	3,289,514

Mountain States Health Alliance
Consolidated Balance Sheet (cont'd)
At June 30, 2016

	JMH	NC	SC	RC	BR Cons	MSHH	MSHA Corp	ISHN	Foundation	Auxiliary
ASSETS										
CURRENT ASSETS										
Cash and Cash Equivalents	11,551,790	8,477,996	3,103,122	12,364	10,159,929	300	41,917,991	5,261,851	8,785,646	272,572
Current Portion AWUIL	0	0	0	0	0	0	25,771,897	0	0	0
Accounts Receivable (Net)	21,848,424	10,690,629	6,560,667	3,869,751	10,478,717	3,065,986	0	0	0	0
Other Receivables	1,131,132	1,281,864	321,303	72,911	6,843,550	304,995	13,566,868	7,466,672	1,886,369	121,438
Due From Affiliates	0	(0)	1,639,690	100,374	(0)	4,347	8,398,053	14,191,916	214,961	49,957
Due From Third Party Payors	1,986,912	737,982	1,302,637	(222,398)	0	0	0	0	0	0
Inventories	3,177,563	1,586,395	859,623	320,567	3,088,890	0	0	0	0	587,435
Prepaid Expense	698,614	330,304	221,229	103,255	505,546	72,253	3,145,274	40,845	15,110	7,540
	40,394,435	23,105,169	14,008,272	4,256,823	31,076,632	3,447,881	92,800,083	26,961,283	10,902,086	1,038,941
ASSETS WHOSE USE IS LIMITED	0	(0)	163	0	990	0	14,894,426	2,041,854	0	0
OTHER INVESTMENTS	170,814,547	26,107,697	25,042,606	0	77,455,251	0	300,602,662	6,776,836	1,598,465	487,810
PROPERTY, PLANT AND EQUIPMENT										
Land, Buildings and Equipment	267,722,005	108,400,563	119,827,857	27,417,811	150,190,675	3,028,552	115,167,338	736,290	28,686	886,441
Less Allowances for Depreciation	113,486,729	56,608,869	55,795,012	14,685,852	65,755,500	2,132,491	52,475,848	570,403	12,386	615,672
	154,235,276	51,791,694	64,032,846	12,731,959	84,435,175	896,060	62,691,490	165,886	16,300	270,769
OTHER ASSETS										
Pledges Receivable	0	0	0	0	0	0	0	0	2,957,802	0
Long Term Compensation Investment	0	0	0	0	10,677,381	0	15,649,198	0	0	0
Investments in Unconsolidated Subsidiaries	142,230	0	60,396	0	8,001,492	0	(954,220)	0	0	0
Land / Equipment Held for Resale	0	0	0	0	57,635	0	2,864,014	0	0	0
Assets Held for Expansion	1,902,206	0	0	0	2,981,309	0	3,945,562	0	0	0
Investments in Subsidiaries	0	0	668,615	0	0	0	426,753,448	0	0	0
Goodwill	69,828	0	0	0	11,470,191	0	133,326,592	0	0	0
Deferred Charges and Other	201,445	202,053	126,855	0	1,259,636	452,246	19,213,713	164,666	125,000	1,562
	2,315,709	202,053	855,866	0	34,447,644	452,246	600,798,306	164,666	3,082,802	1,562
TOTAL ASSETS	367,759,967	101,206,612	103,939,753	16,988,782	227,415,692	4,796,188	1,071,786,967	36,110,526	15,599,653	1,799,082
LIABILITIES AND NET ASSETS										
CURRENT LIABILITIES										
Accounts Payable and Accrued Expense	7,276,126	3,998,774	2,399,721	1,370,913	10,149,066	776,594	22,821,022	2,500,571	135,459	124,897
Accrued Salaries, Benefits, and PTO	7,181,031	4,381,516	1,851,023	1,029,500	17,767,202	1,173,533	7,825,774	417,722	0	8,000
Claims Payable	0	0	0	0	0	0	0	4,414,252	0	0
Accrued Interest	20,437	16,402	13,271	60,156	40,114	6,925	6,211,095	0	0	0
Due to Affiliates	755,537	261,661	1,483,080	203,501	4,619,554	87,372	1,444,335	14,888,416	500,000	9,953
Due to Third Party Payors	2,261,850	1,059,744	1,289,874	0	73,556	0	0	0	0	0
Call Option Liability	0	0	0	0	0	0	0	0	0	0
Current Portion of Long Term Debt	1,188,862	126,252	153,576	0	188,408	0	21,039,372	6,433,000	0	0
	18,683,844	9,844,349	7,190,545	2,664,069	32,837,900	2,044,423	59,341,598	28,653,962	635,459	142,850
OTHER NON CURRENT LIABILITIES										
Long Term Compensation Payable	0	900	0	0	10,677,381	0	2,081,762	0	0	0
Long Term Debt	17,348,392	20,859,248	15,678,652	0	15,163,346	0	881,376,801	0	0	0
Estimated Fair Value of Interest Rate Swaps	0	0	0	0	0	0	4,482,751	0	0	0
Deferred Income	1,831,821	75,044	799,176	(0)	68,708	0	7,666,818	0	34,865	0
Professional Liability Self-Insurance and Other	890,598	9,009,551	398,764	202,931	1,397,454	600	2,270,078	0	0	0
	20,070,811	29,944,742	16,876,592	202,931	27,306,889	600	897,878,210	0	34,865	0
TOTAL LIABILITIES	38,754,654	39,789,091	24,067,136	2,867,000	60,144,788	2,045,023	957,219,807	28,653,962	670,324	142,850
NET ASSETS	328,336,698	61,417,521	79,872,616	14,121,783	163,846,727	2,751,165	159,567,160	7,456,565	14,929,329	1,656,232
NONCONTROLLING INTEREST IN SUBSIDIARIES	668,615	0	0	0	3,424,176	0	(45,000,000)	0	0	0
TOTAL LIABILITIES AND NET ASSETS	367,759,967	101,206,612	103,939,753	16,988,782	227,415,692	4,796,188	1,071,786,967	36,110,526	15,599,653	1,799,082

Mountain States Health Alliance

Consolidated Statement of Revenue and Expense

For the Twelve Months Ended June 30, 2016

	Consolidated	Eliminations	JCMC	FWCH	NSH	WOOD	IPMC	SSH	UC	JCCH
Patient Revenue										
Inpatient Revenue	2,658,938,817	0	1,498,056,993	191,823,888	0	70,827,300	272,967,552	114,463,618	17,972,614	287,379
Outpatient Revenue	2,893,529,025	(249,572)	996,880,313	257,619,520	0	508,954	259,577,113	157,380,834	40,853,222	27,140,088
Total Gross Patient Revenue	5,552,467,843	(249,572)	2,494,937,306	449,443,408	0	71,336,254	532,544,665	271,844,452	58,825,836	27,427,467
Deductions from Revenue										
Contractual Adjustments	4,291,791,047	864,343	1,988,070,033	358,698,136	0	38,028,137	430,027,713	217,596,954	46,052,192	18,227,943
Charity	78,305,882	0	36,142,393	3,767,246	0	13,670,109	4,258,430	2,384,803	24,620	172,564
Contra Revenue - Charity	116,013,588	0	43,175,420	8,224,542	0	892,921	9,518,578	7,185,706	19,870	1,120,650
Provision for Bad Debt	21,692,286	0	8,438,422	1,335,240	0	133,986	1,793,104	1,355,212	1,217,742	324,791
Total Deductions	4,507,802,804	864,343	2,075,826,269	372,025,164	0	52,725,152	445,597,825	228,522,675	47,314,425	19,845,947
Net Patient Service Revenue	1,044,665,039	(1,113,915)	419,111,037	77,418,244	0	18,611,102	86,946,840	43,321,777	11,511,411	7,581,521
Premium Revenue	0	0	0	0	0	0	0	0	0	0
Other Operating Revenue	45,430,087	(66,473,533)	5,816,283	870,910	0	2,860,644	2,171,927	1,588,060	709,179	116,160
Total Other Operating Revenue	45,430,087	(66,473,533)	5,816,283	870,910	0	2,860,644	2,171,927	1,588,060	709,179	116,160
Total Operating Revenue	1,090,095,125	(67,587,448)	424,927,320	78,289,153	0	21,471,746	89,118,767	44,909,837	12,220,591	7,697,680
Operating Expense										
Salaries	352,320,910	(35,150)	121,563,162	24,649,642	0	8,843,445	31,698,263	18,121,947	7,769,094	3,780,554
Provider Salaries	84,042,825	302	41	0	0	0	122,090	0	0	535,691
Contract Labor	5,774,484	(4,052,532)	3,869,080	653,684	0	185,842	550,038	516,347	162,889	35,395
Employee Benefits	101,536,498	(2,330,716)	31,987,415	6,278,219	0	2,312,055	8,174,872	4,893,285	2,062,312	1,123,183
Fees	111,742,304	(57,148,391)	64,992,455	7,209,561	0	4,801,477	18,281,646	4,731,405	2,694,851	1,406,384
Supplies	179,141,486	(144,711)	98,071,443	11,648,907	0	1,030,036	15,375,476	6,381,333	1,423,610	558,516
Utilities	16,180,310	(3,524)	5,225,468	1,273,579	0	156,848	1,277,098	717,470	451,283	114,969
Other Expense	85,051,708	(3,745,901)	24,417,255	4,139,296	0	720,975	6,912,948	3,287,124	1,639,233	689,933
Medical Costs	(761,658)	0	0	0	0	0	0	0	0	0
Depreciation	66,383,995	0	19,467,655	5,429,557	0	599,103	3,577,097	1,676,770	620,192	370,935
Amortization	1,516,989	0	47,587	7,228	0	0	0	0	0	0
Interest & Taxes	43,450,701	0	16,891,984	4,049,186	0	623,295	1,451,301	496,417	28	25,875
Consolidation Allocation	(1)	0	5,844,044	1,237,857	0	351,694	1,501,005	825,655	308,732	199,560
Total Operating Expense	1,046,380,551	(67,460,623)	392,377,591	66,576,717	0	19,624,771	88,921,833	41,647,753	17,132,223	8,840,994
Net Operating Income	43,714,574	(126,825)	32,549,729	11,712,436	0	1,846,976	196,933	3,262,084	(4,911,632)	(1,143,314)
Non Operating Income / (Expense)	2,991,429	(9,641,629)	2,078,418	119,379	0	4,926	50,508	26,832	(19,395)	1,697
Total Revenue Over Expense	46,706,003	(9,768,454)	34,628,146	11,831,816	0	1,851,901	247,441	3,288,916	(4,931,027)	(1,141,618)
Change in Fair Value of Derivatives	(2,286,838)	0	0	0	0	0	0	0	0	0
Net Unrealized Gain / (Loss) on Investments	(17,511,298)	0	0	0	0	0	0	0	0	0
Cumulative Effect of Change in Accounting Principle	0	0	0	0	0	0	0	0	0	0
Total Increase in Unrestricted Net Assets	26,907,868	(9,768,454)	34,628,146	11,831,816	0	1,851,901	247,441	3,288,916	(4,931,027)	(1,141,618)
EBITDA	160,884,251	(9,768,454)	71,035,373	21,317,786	0	3,074,299	5,275,839	5,462,103	(4,310,807)	(744,808)

Mountain States Health Alliance

Consolidated Statement of Revenue and Expense (cont'd)

For the Twelve Months Ended June 30, 2016

	JMH	NC	SC	RC	BR Cons	Home Care	MSHA Corp	ISHN	Foundation	Auxiliary
Patient Revenue										
Inpatient Revenue	293,445,373	95,260,948	61,042,780	42,790,373	0	0	0	0	0	0
Outpatient Revenue	498,105,345	198,564,709	129,426,662	56,048,645	250,836,720	20,836,472	0	0	0	0
Total Gross Patient Revenue	791,550,718	293,825,657	190,469,441	98,839,018	250,836,720	20,836,472	0	0	0	0
Deductions from Revenue										
Contractual Adjustments	604,060,535	208,362,136	138,803,362	73,342,029	163,866,766	5,790,770	0	0	0	0
Charity	9,248,943	4,342,296	1,870,143	762,371	1,585,770	76,194	0	0	0	0
Contra Revenue - Charity	19,748,755	9,391,938	4,609,488	4,659,363	7,334,831	131,527	0	0	0	0
Provision for Bad Debt	1,878,609	1,677,154	684,546	806,954	1,576,742	469,784	0	0	0	0
Total Deductions	634,936,842	223,773,524	145,967,539	79,570,716	174,364,109	6,468,275	0	0	0	0
Net Patient Service Revenue	156,613,876	70,052,134	44,501,902	19,268,302	76,472,612	14,368,197	0	0	0	0
Premium Revenue	0	0	0	0	0	0	0	0	0	0
Other Operating Revenue	4,931,663	2,370,203	1,903,469	743,480	75,705,755	62,791	2,531,516	8,832,939	0	688,641
Total Other Operating Revenue	4,931,663	2,370,203	1,903,469	743,480	75,705,755	62,791	2,531,516	8,832,939	0	688,641
Total Operating Revenue	161,545,539	72,422,337	46,405,371	20,011,782	152,178,367	14,430,988	2,531,516	8,832,939	0	688,641
Operating Expense										
Salaries	41,757,192	24,917,064	17,584,849	8,569,097	30,632,794	9,711,452	(42,931)	2,544,809	0	255,625
Provider Salaries	9,596,918	7,415,200	268,638	59,679	66,044,164	103	0	0	0	0
Contract Labor	1,058,099	757,057	227,782	109,725	650,452	71,542	(0)	975,492	0	3,592
Employee Benefits	12,763,927	8,693,262	4,474,774	2,422,667	14,405,060	2,457,455	1,379,554	401,433	0	37,742
Fees	23,299,527	8,336,302	9,489,476	5,380,755	7,254,810	1,085,729	6,246,475	3,652,990	0	26,850
Supplies	24,433,893	6,891,194	5,555,227	1,727,495	6,436,409	723,940	(1,090,129)	106,030	0	12,818
Utilities	2,023,038	1,235,275	970,620	494,467	1,677,156	45,809	494,450	26,305	0	0
Other Expense	11,841,821	6,220,896	4,881,615	2,060,822	11,543,361	1,014,244	8,978,608	403,585	0	45,895
Medical Costs	0	0	0	0	0	0	0	(761,658)	0	0
Depreciation	12,133,929	4,655,819	4,343,920	1,715,992	5,757,915	142,528	5,776,411	67,677	0	48,495
Amortization	18,770	7,914	12,687	0	73,569	82,023	1,257,336	8,000	0	1,875
Interest & Taxes	257,212	265,868	180,471	689,712	999,752	22,471	17,424,161	72,967	0	0
Consolidation Allocation	3,241,065	1,687,928	886,824	386,315	(815,529)	216,280	(15,966,028)	94,596	0	0
Total Operating Expense	142,425,391	71,083,778	48,876,883	23,616,724	144,659,914	15,573,576	24,457,908	7,592,226	0	432,892
Net Operating Income	19,120,149	1,338,558	(2,471,512)	(3,604,942)	7,518,453	(1,142,588)	(21,926,392)	1,240,712	0	255,750
Non Operating Income / (Expense)	3,723,488	829,977	1,214,048	12,727	6,421,851	(12,161)	4,400,361	(6,897,855)	770,450	(92,192)
Total Revenue Over Expense	22,843,637	2,168,535	(1,257,464)	(3,592,215)	13,940,303	(1,154,749)	(17,526,031)	(5,657,143)	770,450	163,558
Change in Fair Value of Derivatives	0	0	0	0	0	0	(2,286,838)	0	0	0
Net Unrealized Gain / (Loss) on Investments	(2,957,709)	(724,739)	(882,309)	0	(3,086,790)	0	(9,700,992)	(120,499)	(45,148)	6,888
Cumulative Effect of Change in Accounting Principle	0	0	0	0	0	0	0	0	0	0
Total Increase in Unrestricted Net Assets	19,885,928	1,443,796	(2,139,772)	(3,592,215)	10,853,513	(1,154,749)	(29,513,861)	(5,777,642)	725,301	170,446
EBITDA	35,253,549	7,098,135	3,279,615	(1,186,511)	20,771,539	(907,728)	9,758,441	(5,508,498)	770,450	213,928

[redacted]

MOUNTAIN STATES HEALTH ALLIANCE

Audited Consolidated Financial Statements (and Supplemental Information)

Years Ended June 30, 2015 and 2014

PYA
Certified Public Accountants

MOUNTAIN STATES HEALTH ALLIANCE

Audited Consolidated Financial Statements (and Supplemental Information)
(Dollars in Thousands)

Years Ended June 30, 2015 and 2014

PERSHING YOAKLEY & ASSOCIATES, P.C.
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PYA
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Mountain States Health Alliance:

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Mountain States Health Alliance and its subsidiaries (the Alliance), which comprise the consolidated balance sheets as of June 30, 2015 and 2014, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Alliance's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Alliance's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Mountain States Health Alliance and its subsidiaries as of June 30, 2015 and 2014, and the results of their operations, changes in net assets, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplemental information is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Pershing Yoakley & Associates PC

Knoxville, Tennessee
October 28, 2015

MOUNTAIN STATES HEALTH ALLIANCE

Consolidated Balance Sheets
(Dollars in Thousands)

	June 30, 2015	June 30, 2014
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 79,714	$ 59,185
Current portion of investments	19,598	25,029
Patient accounts receivable, less estimated allowances for uncollectible accounts of $73,805 in 2015 and $47,853 in 2014	162,256	161,318
Other receivables, net	33,286	45,502
Inventories and prepaid expenses	33,969	30,838
TOTAL CURRENT ASSETS	328,823	321,872
INVESTMENTS, less amounts required to meet current obligations	694,542	648,475
PROPERTY, PLANT AND EQUIPMENT, net	847,089	881,429
OTHER ASSETS		
Goodwill	156,596	156,613
Net deferred financing, acquisition costs and other charges	24,755	25,841
Other assets	53,040	48,350
TOTAL OTHER ASSETS	234,391	230,804
	$ 2,104,845	$ 2,082,580

See notes to consolidated financial statements.

MOUNTAIN STATES HEALTH ALLIANCE

Consolidated Balance Sheets - Continued
(Dollars in Thousands)

	June 30, 2015	June 30, 2014
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accrued interest payable	$ **18,159**	$ 18,648
Current portion of long-term debt and capital lease obligations	**40,286**	30,618
Accounts payable and accrued expenses	**100,301**	87,126
Accrued salaries, compensated absences and amounts withheld	**72,066**	72,181
Estimated amounts due to third-party payers, net	**4,781**	10,463
TOTAL CURRENT LIABILITIES	**235,593**	219,036
OTHER LIABILITIES		
Long-term debt and capital lease obligations, less current portion	**1,031,661**	1,075,069
Estimated fair value of derivatives	**2,541**	10,603
Estimated professional liability self-insurance	**8,461**	8,957
Other long-term liabilities	**38,683**	35,974
TOTAL LIABILITIES	**1,316,939**	1,349,639
COMMITMENTS AND CONTINGENCIES - Notes D, F, G, and M		
NET ASSETS		
Unrestricted net assets		
Mountain States Health Alliance	**583,287**	541,979
Noncontrolling interests in subsidiaries	**191,118**	178,547
TOTAL UNRESTRICTED NET ASSETS	**774,405**	720,526
Temporarily restricted net assets		
Mountain States Health Alliance	**13,303**	12,204
Noncontrolling interests in subsidiaries	**71**	84
TOTAL TEMPORARILY RESTRICTED NET ASSETS	**13,374**	12,288
Permanently restricted net assets	**127**	127
TOTAL NET ASSETS	**787,906**	732,941
	$ **2,104,845**	$ 2,082,580

MOUNTAIN STATES HEALTH ALLIANCE

Consolidated Statements of Operations
(Dollars in Thousands)

	Year Ended June 30,	
	2015	*2014*
Revenue, gains and support:		
Patient service revenue, net of contractual allowances and discounts	$ 1,116,954	$ 1,046,767
Provision for bad debts	(127,519)	(122,642)
Net patient service revenue	989,435	924,125
Premium revenue	32,184	10,683
Net investment gain	17,016	50,703
Net derivative gain	13,890	3,219
Other revenue, gains and support	36,571	62,457
TOTAL REVENUE, GAINS AND SUPPORT	1,089,096	1,051,187
Expenses and losses:		
Salaries and wages	345,155	340,589
Physician salaries and wages	80,279	77,636
Contract labor	5,416	4,282
Employee benefits	77,306	69,173
Fees	120,691	115,606
Supplies	176,050	163,699
Utilities	16,775	17,052
Medical costs	18,383	6,633
Other	81,477	79,980
Loss on early extinguishment of debt	-	4,622
Depreciation	67,210	69,437
Amortization	1,557	1,742
Interest and taxes	43,697	44,392
TOTAL EXPENSES AND LOSSES	1,033,996	994,843
EXCESS OF REVENUE, GAINS AND SUPPORT OVER EXPENSES AND LOSSES	$ 55,100	$ 56,344

See notes to consolidated financial statements.

MOUNTAIN STATES HEALTH ALLIANCE

Consolidated Statements of Changes in Net Assets
(Dollars in Thousands)

Year Ended June 30, 2015

	Mountain States Health Alliance	*Noncontrolling Interests*	*Total*
UNRESTRICTED NET ASSETS:			
Excess of Revenue, Gains and Support over Expenses and Losses	$ 41,008	$ 14,092	$ 55,100
Pension and other defined benefit plan adjustments	(178)	(152)	(330)
Net assets released from restrictions used for the purchase of property, plant and equipment	478	-	478
Repurchases of noncontrolling interests, net	-	(1,014)	(1,014)
Distributions to noncontrolling interests	-	(355)	(355)
INCREASE IN UNRESTRICTED NET ASSETS	41,308	12,571	53,879
TEMPORARILY RESTRICTED NET ASSETS:			
Restricted grants and contributions	3,663	69	3,732
Net assets released from restrictions	(2,564)	(82)	(2,646)
INCREASE (DECREASE) IN TEMPORARILY RESTRICTED NET ASSETS	1,099	(13)	1,086
INCREASE IN TOTAL NET ASSETS	42,407	12,558	54,965
NET ASSETS, BEGINNING OF YEAR	554,310	178,631	732,941
NET ASSETS, END OF YEAR	$ 596,717	$ 191,189	$ 787,906

See notes to consolidated financial statements.

MOUNTAIN STATES HEALTH ALLIANCE

Consolidated Statements of Changes in Net Assets - Continued
(Dollars in Thousands)

Year Ended June 30, 2014

	Mountain States Health Alliance	*Noncontrolling Interests*	*Total*
UNRESTRICTED NET ASSETS:			
Excess of Revenue, Gains and Support over Expenses and Losses	$ 48,058	$ 8,286	$ 56,344
Pension and other defined benefit plan adjustments	194	194	388
Net assets released from restrictions used for the purchase of property, plant and equipment	3,313	-	3,313
Noncontrolling interest in acquired subsidiary	-	914	914
Distributions to noncontrolling interests	-	(461)	(461)
INCREASE IN UNRESTRICTED NET ASSETS	51,565	8,933	60,498
TEMPORARILY RESTRICTED NET ASSETS:			
Restricted grants and contributions	4,693	88	4,781
Net assets released from restrictions	(5,265)	(56)	(5,321)
INCREASE (DECREASE) IN TEMPORARILY RESTRICTED NET ASSETS	(572)	32	(540)
INCREASE IN TOTAL NET ASSETS	50,993	8,965	59,958
NET ASSETS, BEGINNING OF YEAR	503,317	169,666	672,983
NET ASSETS, END OF YEAR	$ 554,310	$ 178,631	$ 732,941

MOUNTAIN STATES HEALTH ALLIANCE

Consolidated Statements of Cash Flows
(Dollars in Thousands)

	Year Ended June 30,	
	2015	*2014*
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in net assets	$ 54,965	$ 59,958
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Provision for depreciation and amortization	69,242	71,789
Provision for bad debts	127,519	122,642
Loss on early extinguishment of debt	-	4,622
Change in estimated fair value of derivatives	(7,718)	2,761
Equity in net income of joint ventures, net	(79)	(369)
Loss (gain) on disposal of assets	(2,192)	(3,489)
Amounts received on interest rate swap settlements	(6,172)	(5,980)
Capital Appreciation Bond accretion and other	2,780	2,629
Restricted contributions	(3,732)	(4,781)
Pension and other defined benefit plan adjustments	330	(388)
Increase (decrease) in cash due to change in:		
Patient accounts receivable	(128,457)	(115,380)
Other receivables, net	12,303	(11,880)
Inventories and prepaid expenses	(3,131)	959
Trading securities	(39,873)	(46,451)
Other assets	(3,128)	(2,492)
Accrued interest payable	(489)	(1,058)
Accounts payable and accrued expenses	16,745	(6,666)
Accrued salaries, compensated absences and amounts withheld	(115)	8,006
Estimated amounts due to third-party payers, net	(5,682)	(16,312)
Estimated professional liability self-insurance	(496)	199
Other long-term liabilities	2,379	16,425
Total adjustments	30,034	14,786
NET CASH PROVIDED BY OPERATING ACTIVITIES	84,999	74,744
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant and equipment and property held for expansion	(44,569)	(64,424)
Acquisitions, net of cash acquired	-	(4,256)
Purchases of held-to-maturity securities	(1,417)	(5,978)
Net distribution from joint ventures and unconsolidated affiliates	4,859	661
Proceeds from sale of property, plant and equipment and property held for resale	2,654	2,858
NET CASH USED IN INVESTING ACTIVITIES	(38,473)	(71,139)

See notes to consolidated financial statements.

MOUNTAIN STATES HEALTH ALLIANCE

Consolidated Statements of Cash Flows - Continued
(Dollars in Thousands)

	Year Ended June 30,	
	2015	*2014*
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on long-term debt and capital lease obligations, including deposits to escrow	**(36,210)**	(38,768)
Payment of acquisition and financing costs	**-**	(3,826)
Proceeds from issuance of long-term debt and other financing arrangements	**-**	11,916
Net amounts received on interest rate swap settlements	**6,172**	5,980
Restricted contributions received	**4,041**	5,376
NET CASH USED IN FINANCING ACTIVITIES	**(25,997)**	(19,322)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**20,529**	(15,717)
CASH AND CASH EQUIVALENTS, beginning of year	**59,185**	74,902
CASH AND CASH EQUIVALENTS, end of year	**$ 79,714**	$ 59,185
SUPPLEMENTAL INFORMATION AND NON-CASH TRANSACTIONS:		
Cash paid for interest	**$ 38,982**	$ 40,546
Cash paid for federal and state income taxes	**$ 917**	$ 854
Construction related payables in accounts payable and accrued expenses	**$ 5,034**	$ 8,604
Assets contributed into joint venture	**$ 8,668**	$ -
Supplemental cash flow information regarding acquisitions:		
Assets acquired, net of cash	**$ -**	$ 12,715
Liabilities assumed	**-**	(8,459)
Acquisitions, net of cash acquired	**$ -**	$ 4,256

During the year ended June 30, 2014, the Alliance refinanced previously issued debt of $318,385.

MOUNTAIN STATES HEALTH ALLIANCE

Notes to Consolidated Financial Statements
(Dollars in Thousands)

Years Ended June 30, 2015 and 2014

NOTE A--ORGANIZATION AND OPERATIONS

Mountain States Health Alliance (the Alliance) is a tax-exempt entity with operations primarily located in Washington, Sullivan, Unicoi, and Carter counties of Tennessee and Smyth, Wise, Dickenson, Russell and Washington counties of Virginia. The primary operations of the Alliance consist of eleven acute and specialty care hospitals.

The Alliance's accompanying consolidated financial statements include all assets, liabilities, revenues, expenses, and changes in net assets attributable to the noncontrolling interests in the following subsidiaries:

- Smyth County Community Hospital and Subsidiary - the Alliance holds an 80% interest
- Norton Community Hospital and Subsidiaries - the Alliance holds a 50.1% interest
- Johnston Memorial Hospital, Inc. and Subsidiaries - the Alliance holds a 50.1% interest

The Alliance is the sole shareholder of Blue Ridge Medical Management Corporation (BRMM), a for-profit entity that owns and manages physician practices, real estate and ambulatory surgery centers and provides other healthcare services to individuals in Tennessee and Virginia.

The Alliance is a 99.9% shareholder of Integrated Solutions Health Network, LLC, a for-profit entity that owns a for-profit insurance company and an accountable care organization and administers a provider-sponsored health care delivery network,

The Alliance is the primary beneficiary of the activities of Mountain States Foundation, Inc., a not-for-profit foundation formed to coordinate fundraising and development activities of the Alliance.

NOTE B--SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation: The accompanying consolidated financial statements include the accounts of the Alliance and its consolidated subsidiaries after elimination of all significant intercompany accounts and transactions.

Use of Estimates: The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the consolidated financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

Cash and Cash Equivalents: Cash and cash equivalents include all highly liquid investments with a maturity of three months or less when purchased. Cash and cash equivalents designated as assets limited as to use or uninvested amounts included in investment portfolios are not included as cash and cash equivalents.

Investments: Investments include trading securities and held-to-maturity securities. Within the trading securities portfolio, all debt securities and marketable equity securities with readily determinable fair values are reported at fair value based on quoted market prices. Investments without readily determinable fair values are reported at estimated fair market value utilizing observable and unobservable inputs. Investments which the Alliance has the positive intent and ability to hold to maturity are classified as held-to-maturity and are stated at amortized cost. Realized gains and losses are computed using the specific identification method for cost determination. Interest and dividend income is reported net of related investment fees.

Management evaluates whether unrealized losses on held-to-maturity investments indicate other-than-temporary impairment. Such evaluation considers the amount of decline in fair value, as well as the time period of any such decline. Management does not believe any investment classified as held-to-maturity is other-than-temporarily impaired at June 30, 2015.

Investments in joint ventures are reported under the equity method of accounting, which approximates the Alliance's equity in the underlying net book value. Other assets include investments in joint ventures of $5,180 and $1,364 at June 30, 2015 and 2014, respectively. During 2015, the Alliance contributed assets into a joint venture which owns and operates a rehabilitation hospital.

Inventories: Inventories, consisting primarily of medical supplies, are stated at the lower of cost or market with cost determined by first-in, first-out method.

Property, Plant and Equipment: Property, plant and equipment is stated on the basis of cost, or if donated, at the fair value at the date of gift. Generally, depreciation is computed by the straight-line method over the estimated useful life of the asset. Equipment held under capital lease obligations is amortized under the straight-line method over the shorter of the lease term or estimated useful life. Amortization of buildings and equipment held under capital leases is shown as a part of depreciation expense and accumulated depreciation in the accompanying consolidated financial statements. Renewals and betterments are capitalized and depreciated over their useful life, whereas costs of maintenance and repairs are expensed as incurred.

Interest costs incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. The amount capitalized is net of investment earnings on assets limited as to use derived from borrowings designated for capital assets.

The Alliance reviews capital assets for indications of potential impairment when there are changes in circumstances related to a specific asset. If this review indicates that the carrying value of these assets may not be recoverable, the Alliance estimates future cash flows from operations and the eventual disposition of such assets. If the sum of these undiscounted future cash flows is less than the carrying amount of the asset, a write-down to estimated fair value is recorded. The Alliance did not recognize any impairment losses during 2015 and 2014.

Other assets include property held for resale and expansion of $19,316 and $20,793, respectively, at June 30, 2015 and 2014. Property held for resale and expansion primarily represents land contributed to, or purchased by, the Alliance plus costs incurred to develop the infrastructure of such land. Management annually evaluates its investment and records non-temporary declines in value when it is determined the ultimate net realizable value is less than the recorded amount. No such declines were identified in 2015 and 2014.

Goodwill: Goodwill is evaluated for impairment at least annually. The Alliance comprises a single reporting unit for evaluation of goodwill. Management performed an evaluation of goodwill for impairment considering qualitative and quantitative factors and does not believe the goodwill to be impaired as of June 30, 2015 and 2014. Management's estimates utilized in the evaluation contain significant estimates and it is reasonably possible that such estimates could change in the near term.

Deferred Financing, Acquisition Costs and Other Charges: Other assets include deferred financing, acquisition costs and other charges of $24,755 and $25,841 at June 30, 2015 and 2014, respectively. Deferred financing costs are amortized over the life of the respective bond issue using the average bonds outstanding method.

Derivative Financial Instruments: The Alliance is a party to various interest rate swaps. These financial instruments are not designated as hedges and have been presented at estimated fair market value in the accompanying Consolidated Balance Sheets as either current or long-term liabilities, based upon the remaining term of the instrument.

Estimated Professional Liability Self-Insurance and Other Long-Term Liabilities: Self-insurance liabilities include estimated reserves for reported and unreported professional liability claims and are recorded at the estimated net present value of such claims. Other long-term liabilities include contributions payable and obligations under deferred compensation arrangements, a defined benefit pension plan, a post-retirement employee benefit plan as well as other liabilities which management estimates are not payable within one year.

Net Patient Service Revenue/Receivables: Net patient service revenue is reported on the accrual basis in the period in which services are provided at the estimated net realizable amounts, including estimated retroactive adjustments under reimbursement agreements with third-party payers.

Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. The Alliance's revenue recognition policies related to self-pay and other types of payers emphasize revenue recognition only when collections are reasonably assured.

Patient accounts receivable are reported net of both an estimated allowance for uncollectible accounts and an estimated allowance for contractual adjustments. The contractual allowance represents the difference between established billing rates and estimated reimbursement from Medicare, Medicaid, TennCare and other third-party payment programs. Current operations include a provision for bad debts in the Consolidated Statements of Operations estimated based upon the age of the patient accounts receivable, historical writeoffs and recoveries and any unusual circumstances (such as local, regional or national economic conditions) which affect the collectibility of receivables, including management's assumptions about conditions it expects to exist and courses of action it expects to take. The primary uncertainty lies with uninsured patient receivables and deductibles, co-payments or other amounts due from individual patients. Additions to the allowance for uncollectible accounts result from the provision for bad debts. Patient accounts written off as uncollectible are deducted from the allowance for uncollectible accounts.

For uninsured patients that do not qualify for charity care, the Alliance recognizes revenue on the basis of discounted rates under the Alliance's self-pay patient policy. Under the policy, a patient who has no insurance and is ineligible for any government assistance program has their bill reduced to the amount which generally would be billed to a commercially insured patient. The Alliance's policy does not require collateral or other security for patient accounts receivable. The Alliance routinely accepts assignment of, or is otherwise entitled to receive, patient benefits payable under health insurance programs, plans or policies.

Charity Care: The Alliance accepts all patients regardless of their ability to pay. A patient is classified as a charity patient by reference to certain established policies of the Alliance and various guidelines outlined by the Federal Government. These policies define charity as those services for which no payment is anticipated and, as such, charges at established rates are not included in net patient service revenue. Charges forgone, based on established rates, totaled $85,988 and $109,550 during 2015 and 2014, respectively. The estimated direct and indirect cost of providing these services totaled $17,953 and $24,011 in 2015 and 2014, respectively. Such costs are determined using a ratio of cost to charges analysis with indirect cost allocated.

In addition to the charity care services, the Alliance provides a number of other services to benefit the poor for which little or no payment is received. Medicare, Medicaid, TennCare and State indigent programs do not cover the full cost of providing care to beneficiaries of those programs. The Alliance also provides services to the community at large for which it receives little or no payment.

Excess of Revenue, Gains and Support Over Expenses and Losses: The Consolidated Statements of Operations and the Consolidated Statements of Changes in Net Assets includes the caption Excess of Revenue, Gains and Support Over Expenses and Losses (the Performance Indicator). Changes in unrestricted net assets which are excluded from the Performance Indicator, consistent with industry practice, include contributions of long-lived assets or amounts restricted to the purchase of long-lived assets, certain pension and related adjustments, and transactions with noncontrolling interests.

Income Taxes: The Alliance is classified as an organization exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. As such, no provision for income taxes has been made in the accompanying consolidated financial statements for the Alliance and its tax-exempt subsidiaries. The Alliance's taxable subsidiaries are discussed in Note L. The Alliance has no significant uncertain tax positions at June 30, 2015 and 2014. At June 30, 2015, tax returns for 2011 through 2014 are subject to examination by the Internal Revenue Service.

Temporarily and Permanently Restricted Net Assets: Temporarily restricted net assets are those whose use has been limited by donors to a specific time period or purpose. When a donor or time restriction expires; that is, when a stipulated time restriction ends or purpose restriction is fulfilled, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the Consolidated Statements of Operations and Changes in Net Assets as net assets released from restrictions. The Alliance's policy is to net contribution and grant revenues against related expenses and present such amounts as a part of other revenue, gains and support in the Consolidated Statements of Operations. Permanently restricted net assets have been restricted by donors to be maintained by the Alliance in perpetuity.

Premium Revenue: Premium revenue include premiums from individuals and the Centers for Medicare & Medicaid Services (CMS). CMS premium revenue is based on predetermined prepaid rates under Medicare risk contracts. Premiums are recognized in the month in which the members are entitled to health care services. Premiums collected in advance are deferred and recorded as unearned premium revenue. Premium deficiency losses are recognized when it is probable that expected future claim expenses will exceed future premiums on existing contracts. Management evaluated the need for a premium deficiency reserve and recorded an estimated reserve of $2,000 at June 30, 2015 and 2014.

Medicare Shared Savings Program (MSSP): The Alliance participates in CMS's Medicare Shared Savings Program which is designed to facilitate coordination and cooperation among providers to improve the quality of care for Medicare beneficiaries and reduce unnecessary costs. Accountable care organizations participating in the program are assigned beneficiaries by CMS and are entitled to share in the savings if they are able to lower growth in Medicare Parts A and B fee-for-service costs while meeting performance standards on quality of care. Utilizing statistical data and the

methodology employed by CMS, management estimated and recognized $2,857 and $5,425 of shared savings in 2015 and 2014, respectively.

Electronic Health Record (EHR) Incentives: The American Recovery and Reinvestment Act of 2009 (ARRA) provides for incentive payments under the Medicare and Medicaid programs for certain hospitals and physician practices that demonstrate meaningful use of certified EHR technology. The incentive payments are calculated based upon estimated discharges, charity care and other input data and are recorded upon the Alliance's attainment of program and attestation criteria. The incentive payments are subject to regulatory audit. During the years ending June 30, 2015 and 2014, the Alliance recognized EHR incentive revenues of $1,883 and $18,269, respectively. EHR incentive revenues are included in other revenue, gains and support in the accompanying Consolidated Statements of Operations. The Alliance incurs both capital expenditures and operating expenses in connection with the implementation of its various EHR initiatives. The amount and timing of these expenditures does not directly correlate with the timing of the Alliance's receipt or recognition of the EHR incentive payments.

Medical Costs: The cost of health care services is recognized in the period in which services are provided. Medical costs include an estimate of the cost of services provided to members by third-party providers, which have been incurred but not reported.

Subsequent Events: The Alliance evaluated all events or transactions that occurred after June 30, 2015, through October 28, 2015, the date the consolidated financial statements were available to be issued. During this period management did not note any material recognizable subsequent events that required recognition or disclosure in the June 30, 2015 consolidated financial statements, other than as disclosed in Note P.

Reclassifications: Certain 2014 amounts have been reclassified to conform with the 2015 presentation in the accompanying consolidated financial statements.

New Accounting Pronouncements: In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*. Under ASU 2014-09, recognition of revenue occurs when a customer obtains control of promised goods or services in an amount that reflects the consideration which the entity expects to receive in exchange for those goods or services. In addition, the accounting standard requires disclosure of the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The standard is effective for fiscal years beginning after December 15, 2017. Management is currently evaluating the impact of adopting the accounting standard.

(Dollars in Thousands)

NOTE C--INVESTMENTS

Assets limited as to use are summarized by designation or restriction as follows at June 30:

	2015	2014
Designated or restricted:		
Under safekeeping agreements	$ 8,221	$ 8,220
By Board to satisfy regulatory requirements	1,529	6,759
Under bond indenture agreements:		
For debt service and interest payments	53,812	55,123
For capital acquisitions	8,507	16,127
	72,069	86,229
Less: amount required to meet current obligations	(19,598)	(25,029)
	$ 52,471	$ 61,200

Assets limited as to use consist of the following at June 30:

	2015	2014
Cash and cash equivalents	$ 49,665	$ 54,437
U.S. Government and agency securities	19,757	28,518
Corporate and foreign bonds	860	2,354
Municipal obligations	1,787	920
	$ 72,069	$ 86,229

Held-to-maturity securities (other than assets limited as to use) are carried at amortized cost and consist of the following at June 30:

	2015	2014
Cash and cash equivalents	$ 2,781	$ 220
Corporate and foreign bonds	30,967	35,131
Municipal obligations	5,765	3,408
	$ 39,513	$ 38,759

Held-to-maturity securities had gross unrealized gains and losses of $98 and $425, respectively, at June 30, 2015 and $206 and $456, respectively, at June 30 2014. At June 30, 2015, the Alliance held securities within the held-to-maturity portfolio with a fair value and unrealized loss of $12,710

(Dollars in Thousands)

and $359, respectively, which had been at an unrealized loss position for over one year. At June 30, 2014, the Alliance held securities within the held-to-maturity portfolio with a fair value and unrealized loss of $13,513 and $456, respectively, which had been at an unrealized loss position for over one year. At June 30, 2015, the contractual maturities of held-to-maturity securities were $10,020 due in one year or less, $16,580 due from one to five years and $12,913 due after five years.

Trading securities consist of the following at June 30:

	2015	2014
Cash and cash equivalents	$ 20,789	$ 50,623
U.S. Government and agency securities	76,167	69,805
Corporate and foreign bonds	95,726	96,749
Municipal obligations	23,330	21,409
U.S. equity securities	5,419	1,868
Mutual funds	293,983	253,301
Alternative investments	87,144	54,761
	$ 602,558	$ 548,516

The net investment gain is comprised of the following for the years ending June 30:

	2015	2014
Interest and dividend income, net of fees	$ 13,894	$ 12,074
Net realized gains on the sale of securities	9,260	15,311
Change in net unrealized gains on securities	(6,138)	23,318
	$ 17,016	$ 50,703

The Alliance is a member of Premier Inc.'s (Premier) group purchasing organization and holds Class B Units which are convertible into cash or Class A common stock over a seven year vesting period. The Alliance records an investment relative to the estimated fair value of its Class B units, $14,724 and $14,713 at June 30, 2015 and 2014, respectively. In addition, as the vesting period is tangential to the Alliance's continued participation in the group purchasing contract, the Alliance recorded a liability equivalent to the estimated fair value of the Class B units, which is included within other long-term liabilities in the Consolidated Balance Sheets. The liability is being amortized as a vendor incentive over the vesting period. During 2015 and 2014, the Alliance recognized $4,045 and $2,933, respectively, related to the vendor incentive which is included within other revenue, gains and support in the Consolidated Statements of Operations.

MOUNTAIN STATES HEALTH ALLIANCE

Notes to Consolidated Financial Statements - Continued
(Dollars in Thousands)

Years Ended June 30, 2015 and 2014

NOTE D--DERIVATIVE TRANSACTIONS

The Alliance is subject to an enforceable master netting arrangement in the form of an ISDA agreement with Bank of America, Merrill Lynch (BofAML). The ISDA agreement requires that the Alliance post additional collateral for the derivatives' fair market value deficits above specified levels. As of June 30, 2015 and 2014, the Alliance was not required to post additional collateral. Under the terms of this agreement, offsetting of derivative contracts is permitted in the event of default of either party to the agreement.

The following is a summary of the interest rate swap agreements at June 30, 2015 and 2014:

Notional Amount	*Termination*	*Counterparty*	*Current Payments:* *Receive*	*Pay*	*Estimated Fair Value* *2015*	*2014*
$170,000	4/2026	BofAML	1.14%	0.00%	$ 5,205	$ 3,089
$95,000	4/2026	BofAML	1.14%	0.00%	2,929	1,748
$173,030	4/2034	BofAML	1.16%	0.00%	884	(1,884)
$82,055	7/2033	BofAML	67% USD-LIBOR-BBA	0.312% + USD-SIFMA	(8,253)	(9,365)
$50,000	7/2038	BofAML	67% (USD-LIBOR-BBA + 0.15%)	USD-SIFMA	(3,351)	(4,210)
$19,400	7/2018	BofAML	4.50%	1.05% + USD-SIFMA	48	63
$4,293	7/2015	First Tennessee Bank	0.00%	USD-LIBOR-BBA	(3)	(44)
					$ (2,541)	$ (10,603)

The Alliance recognized net settlement income on the interest rate swap agreements of $6,172 and $5,980 in 2015 and 2014, respectively.

(Dollars in Thousands)

NOTE E--PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following at June 30:

	2015	*2014*
Land	$ 60,337	$ 60,722
Buildings and leasehold improvements	766,089	760,853
Property and improvements held for leasing	83,582	80,824
Equipment and information technology infrastructure	733,315	700,748
Buildings and equipment held under capital lease	249	340
	1,643,572	1,603,487
Less: Allowances for depreciation and amortization	(815,105)	(757,641)
	828,467	845,846
Construction in progress	18,622	35,583
	$ 847,089	$ 881,429

Accumulated depreciation and amortization on property and improvements held for leasing purposes is $29,520 and $27,500 at June 30, 2015 and 2014, respectively. Net interest capitalized was $925 and $1,533 for the years ended June 30, 2015 and 2014, respectively.

NOTE F--LONG-TERM DEBT AND OTHER FINANCING ARRANGEMENTS

Long-term debt and capital lease obligations consist of the following at June 30:

Description	*Rate as of June 30, 2015*	*Outstanding Balance 2015*	*2014*
2013 Hospital Revenue and Refunding Revenue Bonds:			
$61,180 variable rate tax-exempt term bond, due August 2031	1.15%	$ 327,785	$ 328,665
$47,970 variable rate tax-exempt term bond, due August 2032	0.93%		
$13,350 variable rate tax-exempt term bond, due August 2038	1.15%		
$89,370 variable rate tax-exempt term bonds, due August 2042	1.12% - 1.23%		
$16,235 variable rate tax-exempt term bond, due August 2043	0.07%		
$99,680 variable rate taxable term bond due August 2043	0.12%		
2012 Hospital Revenue Bonds: (net of unamortized premium of $1,696 and $1,756 at June 30, 2015 and 2014, respectively)			
$55,000 fixed rate tax-exempt term bond, due August 2042	5.00%	56,696	56,756
2011 Hospital Revenue and Refunding and Improvement Bonds:			
$74,795 variable rate tax-exempt term bonds, due July 2033	0.08%	94,320	104,710
$19,525 variable rate tax-exempt term bond, due July 2033	1.11%		

MOUNTAIN STATES HEALTH ALLIANCE

Notes to Consolidated Financial Statements - Continued
(Dollars in Thousands)

Years Ended June 30, 2015 and 2014

Description	*Rate as of June 30, 2015*	*Outstanding Balance 2015*	*2014*
2010 Hospital Revenue Refunding Bonds:			
(net of unamortized premium of $1,441 and $1,523 at June 30, 2015 and 2014, respectively)			
$33,960 fixed rate tax-exempt serial bonds, through 2020	4.00% to 5.00%	173,271	180,993
$4,355 fixed rate tax-exempt term bond, due July 2023	5.00%		
$14,985 fixed rate tax-exempt term bond, due July 2025	5.38%		
$4,250 fixed rate tax-exempt term bond, due July 2028	5.50%		
$19,230 fixed rate tax-exempt term bond, due July 2030	5.63%		
$95,050 fixed rate tax-exempt term bonds, due July 2038	6.00% - 6.50%		
2009 Hospital Revenue Bonds:			
(net of unamortized discount of $2,176 and $2,267 at June 30, 2015 and 2014, respectively)			
$14,425 fixed rate tax-exempt term bonds, due July 2019	7.25%	117,264	119,813
$21,730 fixed rate tax-exempt term bonds, due July 2029	7.50%		
$83,285 fixed rate tax-exempt term bonds, due July 2038	7.75% - 8.00%		
2007B Taxable Hospital Revenue Bonds:			
$15,920 variable rate taxable term bond due July 2019	0.12%	15,920	19,515
2006 Hospital First Mortgage Revenue Bonds:			
(net of unamortized premium of $123 and $129 at June 30, 2015 and 2014, respectively)			
$3,965 fixed rate tax-exempt serial bonds, through 2019	5.00%	167,143	167,864
$7,375 fixed rate tax-exempt term bond, due July 2026	5.25%		
$20,505 fixed rate tax-exempt term bond, due July 2031	5.50%		
$135,175 fixed rate tax-exempt term bond, due July 2036	5.50%		
2001 Hospital First Mortgage Revenue Bond:			
$19,400 fixed rate tax-exempt term bond, due July 2026	4.50%	19,400	20,400
2000 Hospital First Mortgage Revenue and Refunding Bonds:			
$42,000 fixed rate tax-exempt term bond, due July 2026	8.50%	81,538	81,006
$39,538 fixed rate tax-exempt Capital Appreciation Bond, interest and principal due July 2026 through 2030	6.63%		
Capitalized lease obligations secured by equipment			
Various monthly principal and interest payments through December 2016	Various	350	806
Notes payable secured by real estate			
Paid-off in 2015	Various	-	5,542
Promissory notes secured by assets of certain subsidiaries			
Various monthly principal and interest payments through 2019	Various	1,705	1,944
Term note			
Monthly principal payments of $60 plus variable rate interest beginning November 2012 through September 2015; remaining principal due October 2015	1.17%	16,160	16,883
Notes payable secured by equipment			
Various monthly principal and interest payments through 2016	Various	395	790
		1,071,947	1,105,687
Less current portion		(40,286)	(30,618)
		$ 1,031,661	$ 1,075,069

Capital Appreciation Bonds: The Series 2000 Bonds include $14,680 of insured Capital Appreciation Bonds. Such bonds bear a 0% coupon rate and have a yield of 6.625% annually. The Alliance recognizes interest expense and increases the amount of outstanding debt each year based upon this yield. Total principal and interest due at maturity (2026 through 2030) is $93,675.

Other: Outstanding tax-exempt bond obligations that were insured under municipal bond insurance policies were $81,538 and $81,006 at June 30, 2015 and 2014, respectively. Under terms of these policies, the insurer guarantees the Alliance's payment of principal and interest. At June 30, 2015 and 2014, the Alliance held $206,630 and $212,360, respectively, in variable rate demand bonds with letter of credit support and $231,395 and $240,530, respectively, in variable rate bonds held under direct purchase agreements.

Early Redemption: Essentially all of the Alliance's bonds are subject to redemption prior to maturity, including optional, mandatory sinking fund and extraordinary redemption, at various dates and prices as described in the respective Bond indentures and other documents.

Derecognized Bonds: In previous years, the Alliance advance refunded debt by placing required funds in irrevocable trusts in order to satisfy remaining scheduled principal and interest payments of the outstanding debt. Management, upon advice of legal counsel, believes the amounts deposited in such irrevocable trust accounts have contractually relieved the Alliance of any future obligations with respect to this debt. Debt outstanding and not recognized in the Consolidated Balance Sheet at June 30, 2015 due to previous advance refundings totaled $185,470.

The assets placed in the irrevocable trust accounts are also not recognized as assets of the Alliance. These assets consist primarily of various investments, as permitted by bond indentures and other documents, including United States Treasury obligations, an investment contract with MBIA Insurance Corporation (MBIA) in the original amount of $54,300, as well as the Series 2000C and 2000D Bonds which were purchased with the proceeds of the 2000A and 2000B Bonds specifically for the purpose of utilizing the Series 2000C and 2000D Bonds in the irrevocable trust. Therefore, certain of the assets held in the irrevocable trust accounts have future income streams contingent upon payments by the Alliance.

Financing Arrangements: The Alliance granted a deed of trust on Johnson City Medical Center and Sycamore Shoals Hospital to secure the payment of the outstanding bond indebtedness. The bonds are also secured by the Alliance's receivables, inventories and other assets as well as certain funds held under the documents pursuant to which the bonds were issued. The Johnston Memorial Hospital, Inc. and Subsidiaries (JMH) Series 2011 Hospital Refunding and Improvement Revenue Bonds are secured by pledged revenues of JMH, as defined in the Credit Agreement.

(Dollars in Thousands)

Certain members of the Alliance and JMH are each members of separate Obligated Groups. The bond indentures, master trust indentures, letter of credit agreements and loan agreements related to the various bond issues and notes payable contain covenants with which the respective Obligated Groups must comply. These requirements include maintenance of certain financial and liquidity ratios, deposits to trustee funds, permitted indebtedness, use of facilities and disposals of property. These covenants also require that failure to meet certain debt service coverage tests will require the deposit of all daily cash receipts of the Alliance into a trust fund. Management has represented the Alliance and JMH are in compliance with all such covenants at June 30, 2015.

The scheduled maturities and mandatory sinking fund payments of the long-term debt and capital lease obligations (excluding interest), exclusive of net unamortized original issue discount and premium, at June 30, 2015 are as follows:

Year Ending June 30,		
2016	$	40,286
2017		24,112
2018		24,793
2019		25,926
2020		27,048
Thereafter		928,699
		1,070,864
Net premium		1,083
	$	1,071,947

NOTE G--SELF-INSURANCE PROGRAMS

The Alliance is substantially self-insured for professional and general liability claims and related expenses. The Alliance maintains a $25,000 umbrella liability policy that attaches over the self-insurance limits of $10,000 per claim and a $15,000 annual aggregate retention. The Alliance's insurance program also provides professional liability coverage for certain affiliates and joint ventures.

The Alliance is also substantially self-insured for workers' compensation claims in the State of Tennessee and has established estimated liabilities for both reported and unreported claims. The Alliance maintains a stop-loss policy that attaches over the self-insurance limits of $1,000 per occurrence. In the State of Virginia, the Alliance is not self-insured and maintains workers' compensation insurance through commercial carriers.

(Dollars in Thousands)

At June 30, 2015, the Alliance is involved in litigation relating to medical malpractice and workers' compensation and other claims arising in the ordinary course of business. There are also known incidents occurring through June 30, 2015 that may result in the assertion of additional claims, and other unreported claims may be asserted arising from services provided in the past. Management has estimated and accrued for the cost of these unreported claims based on historical data and actuarial projections. The estimated net present value of malpractice and workers' compensation claims, both reported and unreported, as of June 30, 2015 and 2014 was $12,616 and $13,220, respectively. The discount rate utilized was 5% at June 30, 2015 and 2014.

Additionally, the Alliance is self-insured for employee health claims and recognizes expense each year based upon actual claims paid and an estimate of claims incurred but not yet paid. Such amount is included in accounts payable and accrued expenses in the Consolidated Balance Sheets.

NOTE H--NET PATIENT SERVICE REVENUE

Patient service revenue, net of contractual allowances and discounts, is composed of the following for the years ended June 30:

	2015	*2014*
Third-party payers	$ 965,865	$ 933,491
Patients	151,089	113,276
Patient service revenue	$ 1,116,954	$ 1,046,767

Patient deductibles and copayments under third-party payment programs are included within the patient amounts above.

The Alliance also provides services to uninsured and underinsured patients that do not qualify for financial assistance. Based on historical experience, a significant portion of uninsured and underinsured patients are unable or unwilling to pay the portion of their bill for which they are financially responsible, and a significant provision for bad debts is recorded in the period the services are provided.

The Alliance's allowance for doubtful accounts totaled $73,805 and $47,853 at June 30, 2015 and 2014, respectively. The allowance for doubtful accounts increased from 23% of patient accounts receivable, net of contractual allowances in 2014 to 31% of patient accounts receivable, net of contractual allowances in 2015. The increase is mainly related to the growing popularity of high-deductible insurance plans resulting in higher deductibles and out-of-pocket costs for patients. Management's estimate of the allowance for doubtful accounts is an estimate subject to change in the

near term. The provision for bad debts associated with the Alliance's ancillary service lines are not significant.

NOTE I--THIRD-PARTY REIMBURSEMENT

The Alliance renders services to patients under contractual arrangements with Medicare, Medicaid, TennCare and various other commercial payers. The Medicare program pays for inpatient services on a prospective basis. Payments are based upon diagnosis related group assignments, which are determined by the patient's clinical diagnosis and medical procedures utilized. The Alliance also receives additional payments from Medicare based on the provision of services to a disproportionate share of Medicaid and other low income patients. Most Medicare outpatient services are reimbursed on a prospectively determined payment methodology. The Medicare program also reimburses certain other services on the basis of reasonable cost, subject to various prescribed limitations and reductions.

Reimbursement under the State of Tennessee's Medicaid waiver program (TennCare) for inpatient and outpatient services is administered by various managed care organizations (MCOs) and is based on diagnosis related group assignments, a negotiated per diem or fee schedule basis. The Alliance also receives additional supplemental payments from the State of Tennessee and Medicaid. These payments recognized totaled $10,386 and $10,860 for the years ended June 30, 2015 and 2014, respectively.

The Virginia Medicaid program reimbursement for inpatient hospital services is based on a prospective payment system using both a per case and per diem methodology. Additional payments are made for the allowable costs of capital. Payments for outpatient services are transitioning from cost-based reimbursement principles to a prospective payment system. Full implementation of this transition is expected to take place over multiple years.

Amounts earned under the contractual agreements with the Medicare and Medicaid programs are subject to review and final determination by fiscal intermediaries and other appropriate governmental authorities or their agents. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. The impact of final settlements of cost reports or changes in estimates increased net patient service revenue by $3,076 and $6,201 in 2015 and 2014, respectively.

Activity with respect to audits and reviews of the governmental programs in the healthcare industry has increased and is expected to increase in the future. No additional specific reserves or allowances have been established with regard to these increased audits and reviews as management is not able to estimate such amounts, if any. Management believes that any adjustments from these increased audits and reviews will not have a material adverse impact on the consolidated financial statements.

However, due to uncertainties in the estimation, it is at least reasonably possible that management's estimate will change in 2016, although the amount of any change cannot be estimated.

Participation in the Medicare program subjects the Alliance to significant rules and regulations; failure to adhere to such could result in fines, penalties or expulsion from the program. Management believes that adequate provision has been made for any adjustments, fines or penalties which may result from final settlements or violations of other rules or regulations. Management has represented that the Alliance is in substantial compliance with these rules and regulations as of June 30, 2015.

The Alliance has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, preferred provider organizations and employer groups. The basis for payment under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

NOTE J--EMPLOYEE BENEFIT PLANS

The Alliance sponsors a defined contribution retirement plan (the Plan) which covers substantially all employees. The Alliance makes contributions to the Plan under a stratified system, whereby the Alliance's contribution percentage is based on each employee's years of service. Employees of certain other subsidiaries are covered by other plans, although such plans are not significant. The total expense related to defined contribution plans for the years ended June 30, 2015 and 2014 was $15,601 and $13,850, respectively.

NCH maintains a frozen defined benefit pension plan and a frozen post-retirement employee benefit plan. The accrued unfunded pension liability was $1,806 and $2,086, and the accrued unfunded post-retirement liability was $6,307 and $5,857 at June 30, 2015 and 2014, respectively.

The Alliance sponsors a secured executive benefit program (SEBP) for certain key executives. Contributions to the plan by the Alliance are based on an annual amount of funding necessary to produce a target benefit for the participants at their retirement dates, although the Alliance does not guarantee any level of benefit will be achieved. The Alliance contributed $1,727 and $511 to the plan during 2015 and 2014, respectively. Other assets at June 30, 2015 and 2014 include $13,030 and $11,302, respectively, related to the Alliance's portion of the benefits which are recoverable upon the death of the participant. In addition, the Alliance sponsors a Section 457(f) plan for certain key executives. Contributions to the Section 457(f) plan during 2015 and 2014 were not significant.

NOTE K--CONCENTRATION OF RISK

The Alliance has locations primarily in upper East Tennessee and Southwest Virginia, a geographic concentration. The Alliance grants credit without collateral to its patients, most of whom are local

(Dollars in Thousands)

residents and are insured under third-party payer agreements. Net patient service revenue from Washington County, Tennessee acute-care operations was approximately 52% of total net patient service revenue in 2015 and 2014.

The mix of receivables from patients and third-party payers based on charges at established rates is as follows as of June 30. The patient responsibility related to charges for which the third-party has not yet paid is included within the third-party payer categories.

	2015	*2014*
Medicare	41%	39%
Tenncare/Medicaid	15%	18%
Commercial	26%	28%
Other third-party payers	8%	8%
Patients	10%	7%
	100%	100%

Approximately 91% and 88% of the consolidated total revenue, gains and support were related to the provision of healthcare services during 2015 and 2014, respectively. Admitting physicians are primarily practitioners in the regional area.

The Hospital maintains bank accounts at various financial institutions covered by the Federal Deposit Insurance Corporation (FDIC). At times throughout the year, the Alliance may maintain bank account balances in excess of the FDIC insured limit. Management believes the credit risk associated with these deposits is not significant.

The Alliance routinely invests in investment vehicles as listed in Note C. The Alliance's investment portfolio is managed by outside investment management companies. Investments in corporate and foreign bonds, municipal obligations, money market funds, equities and other vehicles that are held by safekeeping agents are not insured or guaranteed by the U.S. government.

NOTE L--INCOME TAXES

BRMM and its subsidiaries file a consolidated federal tax return and separate state tax returns. As of June 30, 2015 and 2014, BRMM and its subsidiaries had net operating loss carryforwards for consolidated federal purposes of $30,700 and $27,085, respectively, related to operating loss carryforwards, which expire through 2033. At June 30, 2015 and 2014, BRMM had state net operating loss carryforwards of $75,619 and $74,191, respectively, which expire through 2029. The net operating loss carryforwards may be offset against future taxable income to the extent permitted by the Internal Revenue Code and Tennessee Code Annotated.

(Dollars in Thousands)

Net deferred tax assets related to these carryforwards and other deferred tax assets have been substantially offset through valuation allowances equal to these amounts. Income taxes paid relate primarily to state taxes for certain subsidiaries and federal alternative minimum tax.

NOTE M--OTHER COMMITMENTS AND CONTINGENCIES

Construction in Progress: Construction in progress at June 30, 2015 represents costs incurred related to various hospital and medical office building facility renovations and additions and information technology infrastructure. The Alliance has outstanding contracts and other commitments related to the completion of these projects, and the cost to complete these projects is estimated to be $30,508 at June 30, 2015. The Alliance does not expect any significant costs to be incurred for infrastructure improvements to assets held for resale.

Employee Scholarships: The Alliance offers scholarships to certain individuals which require that the recipients return to the Alliance to work for a specified period of time after they complete their degrees. Amounts due are then forgiven over a specific period of time as provided in the individual contracts. If the recipient does not return and work the required period of time, the funds disbursed on their behalf become due immediately, and interest is charged until the funds are repaid. Other receivables at June 30, 2015 and 2014 include $7,095 and $8,685, respectively, related to students in school, graduates working at the Alliance and amounts due from others who are no longer in the scholarship program, net of an estimated allowance.

Operating Leases and Maintenance Contracts: Total lease expense for the years ended June 30, 2015 and 2014 was $7,414 and $7,901, respectively. Future minimum lease payments for each of the next five years and in the aggregate for the Alliance's noncancellable operating leases with remaining lease terms in excess of one year are as follows:

Year Ending June 30,		
2016	$	7,346
2017		4,614
2018		3,605
2019		3,279
2020		2,481
Thereafter		11,240
	$	32,565

NOTE N--FAIR VALUE MEASUREMENT

The fair value of financial instruments has been estimated by the Alliance using available market information as of June 30, 2015 and 2014, and valuation methodologies considered appropriate. The estimates presented are not necessarily indicative of amounts the Alliance could realize in a current market exchange. The carrying value of substantially all financial instruments approximates fair value due to the nature or term of the instruments, except as described below.

Held-to-Maturity Securities: The estimated fair value of the Alliance's held-to-maturity securities at June 30, 2015 and 2014, is $39,186 and $38,508, respectively, and would be classified in level 2 of the fair value hierarchy (described below). The fair value is based on prices provided by the Alliance's investment managers and its custodian bank, which use a variety of pricing sources to determine market valuations.

Investment in Joint Ventures: It is not practical to estimate the fair market value of the investments in joint ventures.

Estimated Professional Liability Self-Insurance and Other Long-Term Liabilities: Estimates of reported and unreported professional liability claims, pension and post-retirement liabilities are discounted to approximate their estimated fair value. It is not practical to estimate the fair market value of other long-term liabilities.

Long-Term Debt: The estimated fair value of the Alliance's long-term debt at June 30, 2015 and 2014, is $1,130,580 and $1,172,357, respectively, and would be classified in Level 2 in the fair value hierarchy. The fair value of long-term debt is estimated based upon quotes obtained from brokers for bonds and discounted future cash flows using current market rates for other debt. For long-term debt with variable interest rates, the carrying value approximates fair value.

FASB Accounting Standards Codification 820 establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

- Level 1 - Inputs based on quoted market prices for identical assets or liabilities in active markets at the measurement date.

- Level 2 - Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can

(Dollars in Thousands)

- be corroborated by observable market data. The Alliance's Level 2 investments are valued primarily using the market valuation approach.

- Level 3 - Unobservable inputs that are supported by little or no market activity and are significant to the fair value of the assets or liabilities. Level 3 includes values determined using pricing models, discounted cash flow methodologies, or similar techniques reflecting the Alliance's own assumptions.

In instances where the determination of the fair value hierarchy measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. The Alliance's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

The following table sets forth, by level within the fair value hierarchy, the financial instruments measured at fair value as of June 30, 2015 and 2014:

	Total	*Level 1*	*Level 2*	*Level 3*
June 30, 2015				
Cash and cash equivalents	$ 70,439	$ 70,439	$ -	$ -
U.S. Government and agency securities	88,083	88,083	-	-
Corporate and foreign bonds	96,586	-	96,586	-
Municipal obligations	23,329	-	23,329	-
U.S. equity securities	5,419	5,419	-	-
Mutual funds	293,983	212,323	81,660	-
Alternative investments	87,144	-	72,420	14,724
Total assets	$ 664,983	$ 376,264	$ 273,995	$ 14,724
Derivative agreements	$ (2,541)	$ -	$ -	$ (2,541)
June 30, 2014				
Cash and cash equivalents	$ 98,956	$ 98,956	$ -	$ -
U.S. Government and agency securities	90,474	90,474	-	-
Corporate and foreign bonds	99,103	-	99,103	-
Municipal obligations	21,409	-	21,409	-
U.S. equity securities	1,868	1,868	-	-
Mutual funds	253,301	177,067	76,234	-
Alternative investments	69,474	-	54,761	14,713
Total assets	$ 634,585	$ 368,365	$ 251,507	$ 14,713
Derivative agreements	$ (10,603)	$ -	$ -	$ (10,603)

Fair values for the Alliance's fixed maturity securities are based on prices provided by the Alliance's investment managers and its custodian bank, which use a variety of pricing sources to determine market valuations. Fair values of equity securities have been determined by the Alliance from market quotations.

Alternative Investments: The Alliance generally uses net asset value per unit as provided by external investment managers without further adjustment as the practical expedient estimate of the fair value of its alternative investment in a real estate fund. Accordingly, such values may differ from values that would have been used had an active market for the investments existed. The real estate fund invests primarily in U.S. commercial real estate. The Alliance may request redemption of all or a portion of its interests as of the end of a calendar quarter by delivering written notice to the fund managers at least 60 days prior to the end of the quarter. Such redemptions are subject to the capital requirements of the fund manager.

The Alliance's investment in Premier Class B units does not have a readily determinable fair value and have been reported at estimated fair market value. The significant unobservable inputs primarily relate to management's estimate of the discount for lack of marketability of 12%. Accordingly, such value may differ from values that would have been used had an active market for the investment existed and as such it has been classified in Level 3 of the fair value hierarchy.

Derivative Agreements: The valuation of the Alliance's derivative agreements is determined using market valuation techniques, including discounted cash flow analysis on the expected cash flows of each agreement. This analysis reflects the contractual terms of the agreement, including the period to maturity, and uses certain observable market-based inputs. The fair values of interest rate agreements are determined by netting the discounted future fixed cash payments (or receipts) and the discounted expected variable cash receipts (or payments). The variable cash receipts (or payments) are based on the expectation of future interest rates and the underlying notional amount. The Alliance also incorporates credit valuation adjustments (CVAs) to appropriately reflect both its own nonperformance or credit risk and the respective counterparty's nonperformance or credit risk in the fair value measurements. The CVA on the Alliance's interest rate swap agreements at June 30, 2015 and 2014 resulted in a decrease in the fair value of the related liability of $713 and $4,584, respectively.

A certain portion of the inputs used to value its interest rate swap agreements, including the forward interest rate curves and market perceptions of the Alliance's credit risk used in the CVAs, are unobservable inputs available to a market participant. As a result, the Alliance has determined that the interest rate swap valuations are classified in Level 3 of the fair value hierarchy. Due to the nature of these financial instruments, such estimates of fair value are subject to significant change in the near term.

(Dollars in Thousands)

The following tables provide a summary of changes in the fair value of the Alliance's Level 3 financial assets and liabilities during the fiscal years ended June 30, 2015 and 2014:

	Alternative Investment	*Derivatives, Net*
July 1, 2013	$ -	$ (8,185)
Total unrealized/realized losses	-	(2,761)
Net investment income	-	343
Additions	14,713	-
June 30, 2014	14,713	(10,603)
Total unrealized/realized gains	6,978	7,718
Net investment income	-	344
Settlements	(6,967)	-
June 30, 2015	$ 14,724	$ (2,541)

NOTE O--OPERATING EXPENSES BY FUNCTIONAL CLASSIFICATION

The Alliance does not present expense information by functional classification because its resources and activities are primarily related to providing healthcare services. Further, since the Alliance receives substantially all of its resources from providing healthcare services in a manner similar to business enterprises, other indicators contained in these consolidated financial statements are considered important in evaluating how well management has discharged their stewardship responsibilities.

NOTE P--SUBSEQUENT EVENTS

The Alliance and Wellmont Health System (Wellmont) have agreed to exclusively explore the creation of a new, integrated and locally governed health system. Wellmont operates six hospitals and numerous outpatient care sites, serving communities in Northeast Tennessee and Southwest Virginia. Wellmont and the Alliance have filed a letter of intent (LOI) with the Tennessee Department of Health, indicating the organizations will submit an application for a Certificate of Public Advantage (COPA). The two organizations have submitted a similar letter of intent with the Southwest Virginia Health Authority, signaling their intent to request approval by the commonwealth of the anticipated cooperative agreement between the two systems. A COPA in Tennessee and the cooperative agreement approval process in Virginia will allow Wellmont and the Alliance to merge, with the states actively supervising the proposed new health system to ensure it complies with the provisions of the COPA intended to contain costs and sustain high quality, affordable care. The two organizations are in the process of finalizing a definitive agreement. The date for expected completion of the merger has not been set but will not occur before state approval has been granted.

Supplemental Information

MOUNTAIN STATES HEALTH ALLIANCE

Consolidated Balance Sheets
(Smyth County Community Hospital and Subsidiary and Norton Community Hospital and Subsidiaries)
(Dollars in Thousands)

June 30, 2015

	Smyth County Community Hospital and Subsidiary	*Norton Community Hospital and Subsidiaries*
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 2,940	$ 6,798
Patient accounts receivable, less estimated allowances for uncollectible accounts	6,295	11,137
Other receivables, net	156	310
Inventories and prepaid expenses	1,079	2,061
Estimated amounts due from third-party payers, net	793	292
TOTAL CURRENT ASSETS	11,263	20,598
INVESTMENTS, less amounts required to meet current obligations	24,807	30,451
PROPERTY, PLANT AND EQUIPMENT, net	67,550	50,275
OTHER ASSETS		
Net deferred financing, acquisition costs and other charges	139	210
Other assets	741	-
TOTAL OTHER ASSETS	880	210
	$ 104,500	$ 101,534

MOUNTAIN STATES HEALTH ALLIANCE

Consolidated Balance Sheets - Continued
(Smyth County Community Hospital and Subsidiary and Norton Community Hospital and Subsidiaries)
(Dollars in Thousands)

June 30, 2015

	Smyth County Community Hospital and Subsidiary	*Norton Community Hospital and Subsidiaries*
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accrued interest payable	$ 12	$ 15
Current portion of long-term debt and capital lease obligations	134	110
Accounts payable and accrued expenses	2,323	6,245
Accrued salaries, compensated absences and amounts withheld	2,116	4,388
Payables to affiliates, net	342	89
TOTAL CURRENT LIABILITIES	4,927	10,847
OTHER LIABILITIES		
Long-term debt and capital lease obligations, less current portion	15,830	20,985
Estimated professional liability self-insurance	442	632
Other long-term liabilities	1,178	8,200
TOTAL LIABILITIES	22,377	40,664
NET ASSETS		
Unrestricted net assets	82,114	60,734
Temporarily restricted net assets	9	136
TOTAL NET ASSETS	82,123	60,870
	$ 104,500	$ 101,534

MOUNTAIN STATES HEALTH ALLIANCE

Consolidated Statements of Operations and Changes in Net Assets
(Smyth County Community Hospital and Subsidiary and Norton Community Hospital and Subsidiaries)
(Dollars in Thousands)

Year Ended June 30, 2015

	Smyth County Community Hospital and Subsidiary	*Norton Community Hospital and Subsidiaries*
UNRESTRICTED NET ASSETS:		
Revenue, gains and support:		
Patient service revenue, net of contractual allowances and discounts	$ 48,370	$ 78,667
Provision for bad debts	(5,332)	(8,546)
Net patient service revenue	43,038	70,121
Net investment gain	651	746
Other revenue, gains and support	1,745	2,576
TOTAL REVENUE, GAINS AND SUPPORT	45,434	73,443
Expenses and losses:		
Salaries and wages	17,289	23,681
Physician salaries and wages	257	6,043
Contract labor	170	567
Employee benefits	4,365	8,965
Fees	9,050	8,326
Supplies	5,349	8,793
Utilities	978	1,286
Other	4,348	7,753
Depreciation	4,289	4,489
Amortization	8	30
Interest and taxes	156	257
TOTAL EXPENSES AND LOSSES	46,259	70,190
EXCESS (DEFICIT) OF REVENUE, GAINS AND SUPPORT OVER EXPENSES AND LOSSES	(825)	3,253
Pension and postretirement liability adjustments	-	(305)
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	(825)	2,948

MOUNTAIN STATES HEALTH ALLIANCE

Consolidated Statements of Operations and Changes in Net Assets - Continued
(Smyth County Community Hospital and Subsidiary and Norton Community Hospital and Subsidiaries)
(Dollars in Thousands)

Year Ended June 30, 2015

	Smyth County Community Hospital and Subsidiary	*Norton Community Hospital and Subsidiaries*
TEMPORARILY RESTRICTED NET ASSETS:		
Restricted grants and contributions	8	134
Net assets released from restrictions	(8)	(160)
DECREASE IN TEMPORARILY RESTRICTED NET ASSETS	-	(26)
INCREASE (DECREASE) IN TOTAL NET ASSETS	(825)	2,922
NET ASSETS, BEGINNING OF YEAR	82,948	57,948
NET ASSETS, END OF YEAR	$ 82,123	$ 60,870

MOUNTAIN STATES HEALTH ALLIANCE

Consolidating Balance Sheet
(Obligated Group and Other Entities)
(Dollars in Thousands)

June 30, 2015

	Obligated Group	*Other Entities*	*Eliminations*	*Total*
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	$ 47,025	$ 32,689	$ -	$ 79,714
Current portion of investments	19,598	-	-	19,598
Patient accounts receivable, less estimated allowance for uncollectible accounts	134,777	27,479	-	162,256
Other receivables, net	17,873	15,413	-	33,286
Inventories and prepaid expenses	25,427	8,542	-	33,969
TOTAL CURRENT ASSETS	244,700	84,123	-	328,823
INVESTMENTS, less amounts required to meet current obligations	458,373	236,169	-	694,542
EQUITY IN AFFILIATES	351,724	-	(351,724)	-
PROPERTY, PLANT AND EQUIPMENT, net	614,870	232,219	-	847,089
OTHER ASSETS				
Goodwill	152,600	3,996	-	156,596
Net deferred financing, acquisition costs and other charges	23,504	1,251	-	24,755
Other assets	44,738	8,302	-	53,040
TOTAL OTHER ASSETS	220,842	13,549	-	234,391
	$ 1,890,509	$ 566,060	$ (351,724)	$ 2,104,845

See note to supplemental information.

MOUNTAIN STATES HEALTH ALLIANCE

Consolidating Balance Sheet – Continued
(Obligated Group and Other Entities)
(Dollars in Thousands)

June 30, 2015

	Obligated Group	*Other Entities*	*Eliminations*	*Total*
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Accrued interest payable	$ 18,125	$ 34	$ -	$ 18,159
Current portion of long-term debt and capital lease obligations	22,040	18,246	-	40,286
Accounts payable and accrued expenses	80,408	19,893	-	100,301
Accrued salaries, compensated absences and amounts withheld	54,519	17,547	-	72,066
Payables to (receivables from) affiliates, net	15,314	(15,314)	-	-
Estimated amounts due to third-party payers, net	3,909	872	-	4,781
TOTAL CURRENT LIABILITIES	194,315	41,278	-	235,593
OTHER LIABILITIES				
Long-term debt and capital lease obligations, less current portion	1,012,167	19,494	-	1,031,661
Estimated fair value of derivatives, net	2,541	-	-	2,541
Estimated professional liability self-insurance	7,362	1,099	-	8,461
Other long-term liabilities	35,176	3,507	-	38,683
TOTAL LIABILITIES	1,251,561	65,378	-	1,316,939
NET ASSETS				
Unrestricted net assets				
Mountain States Health Alliance	583,287	344,360	(344,360)	583,287
Noncontrolling interests in subsidiaries	42,160	143,222	5,736	191,118
TOTAL UNRESTRICTED NET ASSETS	625,447	487,582	(338,624)	774,405
Temporarily restricted net assets				
Mountain States Health Alliance	13,303	12,966	(12,966)	13,303
Noncontrolling interests in subsidiaries	71	7	(7)	71
TOTAL TEMPORARILY RESTRICTED NET ASSETS	13,374	12,973	(12,973)	13,374
Permanently restricted net assets	127	127	(127)	127
TOTAL NET ASSETS	638,948	500,682	(351,724)	787,906
	$ 1,890,509	$ 566,060	$ (351,724)	$ 2,104,845

See note to supplemental information.

MOUNTAIN STATES HEALTH ALLIANCE

Consolidating Statement of Operations
(Obligated Group and Other Entities)
(Dollars in Thousands)

Year Ended June 30, 2015

	Obligated Group	*Other Entities*	*Eliminations*	*Total*
Revenue, gains and support:				
Patient service revenue, net of contractual allowances and discounts	$ 925,979	$ 203,883	$ (12,908)	$ 1,116,954
Provision for bad debts	(104,724)	(22,795)	-	(127,519)
Net patient service revenue	821,255	181,088	(12,908)	989,435
Premium revenue	-	32,184	-	32,184
Net investment gain	12,486	4,530	-	17,016
Net derivative gain	13,195	695	-	13,890
Other revenue, gains and support	27,244	97,465	(88,138)	36,571
Equity in net gain of affiliates	716	10,275	(10,991)	-
TOTAL REVENUE, GAINS AND SUPPORT	874,896	326,237	(112,037)	1,089,096
Expenses:				
Salaries and wages	284,643	67,093	(6,581)	345,155
Physician salaries and wages	64,838	71,222	(55,781)	80,279
Contract labor	3,101	2,913	(598)	5,416
Employee benefits	66,881	17,443	(7,018)	77,306
Fees	97,754	35,093	(12,156)	120,691
Supplies	146,516	29,660	(126)	176,050
Utilities	12,981	3,798	(4)	16,775
Medical Costs	-	30,566	(12,183)	18,383
Other	61,323	26,524	(6,370)	81,477
Depreciation	51,307	15,903	-	67,210
Amortization	1,488	69	-	1,557
Interest and taxes	41,599	2,098	-	43,697
TOTAL EXPENSES	832,431	302,382	(100,817)	1,033,996
EXCESS OF REVENUE, GAINS AND SUPPORT OVER EXPENSES AND LOSSES	$ 42,465	$ 23,855	$ (11,220)	$ 55,100

See note to supplemental information.

MOUNTAIN STATES HEALTH ALLIANCE

Consolidating Statement of Changes in Net Assets
(Obligated Group and Other Entities)
(Dollars in Thousands)

Year Ended June 30, 2015

	Obligated Group		Total	Other Entities		Total		
	Mountain States Health Alliance	Noncontrolling Interests	Obligated Group	Mountain States Health Alliance	Noncontrolling Interests	Other Entities	Eliminations	Total
UNRESTRICTED NET ASSETS:								
Excess of Revenue, Gains and Support over Expenses and Losses	$ 41,008	$ 1,457	$ 42,465	$ 13,832	$ 10,023	$ 23,855	$ (11,220)	$ 55,100
Pension and other defined benefit plan adjustments	(178)	(152)	(330)	(207)	(206)	(413)	413	(330)
Net assets released from restrictions used for the purchase of property, plant and equipment	478	-	478	478	-	478	(478)	478
Repurchases of noncontrolling interests, net	-	(1,000)	(1,000)	-	(14)	(14)	-	(1,014)
Distributions to noncontrolling interests	-	-	-	(458)	(355)	(813)	458	(355)
Net asset transfers	-	-	-	912	2,372	3,284	(3,284)	-
INCREASE IN UNRESTRICTED NET ASSETS	41,308	305	41,613	14,557	11,820	26,377	(14,111)	53,879
TEMPORARILY RESTRICTED NET ASSETS:								
Restricted grants and contributions	3,663	69	3,732	3,172	7	3,179	(3,179)	3,732
Net assets released from restrictions	(2,564)	(82)	(2,646)	(2,093)	(5)	(2,098)	2,098	(2,646)
INCREASE (DECREASE) IN TEMPORARILY RESTRICTED NET ASSETS	1,099	(13)	1,086	1,079	2	1,081	(1,081)	1,086
INCREASE IN TOTAL NET ASSETS	42,407	292	42,699	15,636	11,822	27,458	(15,192)	54,965
NET ASSETS, BEGINNING OF YEAR	554,310	41,939	596,249	341,817	131,407	473,224	(336,532)	732,941
NET ASSETS, END OF YEAR	$ 596,717	$ 42,231	$ 638,948	$ 357,453	$ 143,229	$ 500,682	$ (351,724)	$ 787,906

See note to supplemental information.

MOUNTAIN STATES HEALTH ALLIANCE

Note to Supplemental Information

Year Ended June 30, 2015

NOTE A--OBLIGATED GROUP MEMBERS

As described in Note F to the consolidated financial statements, the Alliance has granted a deed of trust on JCMC and SSH to secure the payment of the outstanding bonds. The bonds are also secured by the Alliance's receivables, inventories and other assets as well as certain funds held under the documents pursuant to which the bonds were issued. The members pledged pursuant to the Amended and Restated Master Trust Indenture between Mountain States Health Alliance and the Bank of New York Mellon Trust Company, NA as Master Trustee include Johnson City Medical Center Hospital, Indian Path Medical Center, Franklin Woods Community Hospital, Sycamore Shoals Hospital, Johnson County Community Hospital, Russell County Medical Center, Unicoi County Memorial Hospital, Norton Community Hospital (hospital only), Smyth County Community Hospital (hospital only) and Blue Ridge Medical Management Corporation (parent company only), collectively defined as the Obligated Group (Obligated Group).

The supplemental consolidating information includes the accounts of the members of the Obligated Group after elimination of all significant intergroup accounts and transactions. Certain other subsidiaries of the Alliance are not pledged to secure the payment of the outstanding bonds as they are not part of the Obligated Group. These affiliates have been accounted for within the Obligated Group based upon the Alliance's original and subsequent investments, as adjusted for the Alliance's pro rata share of income or losses and any distributions, and are included as a part of equity in affiliates in the supplemental consolidating balance sheet.

ATTACHMENT C, CONTRIBUTION TO THE ORDERLY DEVELOPMENT OF HEALTH CARE, 7(B)

1. Current Licensure from Tennessee Department of Health
2. Official Accreditation Report Summary Statement from The Joint Commission

Board for Licensing Health Care Facilities

State of Tennessee

0000000119

No. of Beds 0048

DEPARTMENT OF HEALTH

This is to certify, that a license is hereby granted by the State Department of Health to

MOUNTAIN STATES HEALTH ALLIANCE *to conduct and maintain a*

Hospital UNICOI COUNTY MEMORIAL HOSPITAL, INC.

Located at 100 GREENWAY CIRCLE, ERWIN

County of UNICOI *, Tennessee.*

This license shall expire OCTOBER 10 *,* 2016 *, and is subject to the provisions of Chapter 11, Tennessee Code Annotated. This license shall not be assignable or transferable, and shall be subject to revocation at any time by the State Department of Health, for failure to comply with the laws of the State of Tennessee or the rules and regulations of the State Department of Health issued thereunder.*

In Witness Whereof, we have hereunto set our hand and seal of the State this 8TH *day of* SEPTEMBER *,* 2015 *.*

In the Distinct Category(ies) of: GENERAL HOSPITAL
PEDIATRIC BASIC HOSPITAL

By Vincent J. Dawson, MPH
DIRECTOR, DIVISION OF HEALTH CARE FACILITIES

By [signature]
COMMISSIONER

Official Accreditation Report

Unicoi County Memorial Hospital, Inc.
100 Greenway Circle
Erwin, TN 37650

Organization Identification Number: 4245

Measure of Success Submitted: 7/20/2016

Executive Summary

Program(s)	Submit Date
Hospital Accreditation	7/20/2016

Hospital Accreditation : As a result of the accreditation activity conducted on the above date(s), there were no Requirements for Improvement identified.

If you have any questions, please do not hesitate to contact your Account Executive.

Thank you for collaborating with The Joint Commission to improve the safety and quality of care provided to patients.

Requirements for Improvement – Summary

Program	Standard	Level of Compliance
HAP	EC.02.06.01	Compliant
HAP	MM.04.01.01	Compliant
HAP	PC.01.02.01	Compliant
HAP	PC.02.02.01	Compliant

ATTACHMENT C,
PROOF OF PUBLICATION

Publication of Intent,

The Erwin Record

Legals | Legals | Legals | Legals

NOTIFICATION OF INTENT TO APPLY FOR A CERTIFICATE OF NEED

This is to provide official notice to the Health Services and Development Agency and all interested parties, in accordance with T.C.A. § 68-11-1601 et seq., and the Rules of the Health Services and Development Agency, that:

Unicoi County Memorial Hospital a hospital

owned by: Mountain States Health Alliance with an ownership type of Not-for-Profit Corporation

and to be managed by: itself intends to file an application for a Certificate of Need for: the relocation and replacement of the existing hospital. The replacement facility will include 10 acute care beds and an emergency department with 10 treatment rooms. The replacement facility will be located at an unaddressed site on Temple Hill Road, Erwin, TN 37650. The project will result in the relocation of all other current services to the new facility, and no major services will be initiated or discontinued. The replacement facility will occupy 41,500 square feet. The estimated project cost is $19,999,141.

The anticipated date of filing the application is: August 15th , 2016
The contact person for this project is Allison Rogers VP, Strategic Planning

who may be reached at: Mountain States Health Alliance 303 Med Tech Parkway, Suite #330

Johnson City TN 37604 423/302-3378

Upon written request by interested parties, a local Fact-Finding public hearing shall be conducted. Written requests for hearing should be sent to:

Health Services and Development Agency
Andrew Jackson Building, 9th Floor
502 Deaderick Street
Nashville, Tennessee 37243

The published Letter of Intent must contain the following statement pursuant to T.C.A. § 68-11-1607(c)(1). (A) Any health care institution wishing to oppose a Certificate of Need application must file a written notice with the Health Services and Development Agency no later than fifteen (15) days before the regularly scheduled Health Services and Development Agency meeting at which the application is originally scheduled; and (B) Any other person wishing to oppose the application must file written objection with the Health Services and Development Agency at or prior to the consideration of the application by the Agency.

water & sewer. 1,000sq.ft. $750/ 700 sqft w/storage $550 Damage dep. 423-477-2967

Taylor Office Building
207 N. Boone Street, Downtown Johnson City Professional Office Suites Now Available - First Month Free! Suites Sizes range from 250 sq.ft. - 2500 sq. ft. 1 to 3 year lease options. All Utilities Included, Daily Janitorial, Ample Free Parking. Contact Sam Taylor at Property Experts, 631-0400 or 423-737-0051

CRUISING AROUND for that best buy in town? Check our Classified Automotive section for used car or truck.

Monte Vista, Roselawn Gardens with 2 Markers, 2 vaults, open & close of graves. Total package value $11,000 will sell for $8,950. New Owner will pay for title transfer. **MUST SELL!** Call 423-530-3320

Three side by side plots Located at Oak Hill Memorial Park in Meditation North, Lot #836. Valued at $6285, will sell for $5200. Buyer pays transfer fee. Call 423-737-2612

970 Antique Automobiles

JAGUAR E-TYPE - 1961 - 1975 I would like to buy a 1970 or 1971 Mercedes 280SL, or a 1961 - 1975 Jaguar XKE, or a Porsche 911 , 912, or a 1970's or 1980's Ferrari. I am willing to buy running or not running. Any Condition. I'm a local guy living in Grainger County. If you have one or know of one please call Jason (865)621-4012

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ATTACHMENT

Affidavit for Application

AFFIDAVIT

STATE OF Tennessee

COUNTY OF Washington

Allison Rogers, being first duly sworn, says that he/she is the applicant named in this application or his/her/its lawful agent, that this project will be completed in accordance with the application, that the applicant has read the directions to this application, the Rules of the Health Services and Development Agency, and T.C.A. § 68-11-1601, *et seq.*, and that the responses to this application or any other questions deemed appropriate by the Health Services and Development Agency are true and complete.

Allison M. Rogers, VP of Planning MSHA
SIGNATURE/TITLE

Sworn to and subscribed before me this 12th day of August (Month), 2016 (Year) a Notary Public in and for the County/State of Washington / Tennessee.

Teresa A. Jackson
NOTARY PUBLIC

My commission expires March 30 (Month/Day), 2019 (Year).

TERESA A. JACKSON
STATE OF TENNESSEE NOTARY PUBLIC
WASHINGTON COUNTY

Supplemental #1
-COPY-

Unicoi Co Memorial Hospital

CN1608-030

1. **Section A, Applicant Profile, Item 13**

Your response to this item is noted. Are there other TennCare MCOs in the service area to which the applicant is not contracted? If yes, please explain.

Response: There are no other TennCare MCOs in the service area at this time. UCMH participates in the three that are available, which are BlueCare, UHC Community Plan, and Amerigroup.

2. **Section B, Project Description, Item I**

What is the distance in miles and travel time between the current hospital site and the proposed site?

Response: Distance between the current hospital and the proposed site is approximately 2.5 miles. Travel time between current hospital site and proposed site is approximately 6 minutes without traffic. (Source: Google Maps)

Will inpatient or outpatient surgery be offered? If not, how will Unicoi county residents' surgical needs be met?

Response: Surgical services are not offered at the current UCMH facility and will not be offered at the proposed replacement facility. The current UCMH facility works closely with other local healthcare providers to ensure surgical needs for Unicoi County residents are met, and the proposed replacement facility will maintain those partnerships.

Will the applicant seek critical access hospital status?

Response: The proposed replacement facility would not meet the criteria to achieve critical access hospital status as currently defined.

If the proposed project is approved, how will the existing facility be utilized?

Response: If the proposed project is approved and MSHA ceases to use the existing building for healthcare purposes, both the land and building will return to the control of Unicoi County Memorial Hospital, Inc., which is the non-profit entity that owned the hospital and land for the benefit of the county of Unicoi prior to MSHA purchasing the building in 2013.

What is the estimated cost to "right size" the existing building to meet the healthcare needs of Unicoi County residents?

Response: While MSHA has not obtained a specific cost estimate for renovation of the existing facility, the consensus of all construction professionals who have evaluated the facility is that renovation of the facility to modern standards and to achieve similar operational efficiencies as the new hospital would likely be greater than new construction. Just one example of the complications in renovating the existing building to current standards is that the entire roof would have to be raised approximately 2 feet based on current "floor to floor" heights. It would be very difficult, and likely impossible, to undertake renovations of this magnitude while operating the facility.

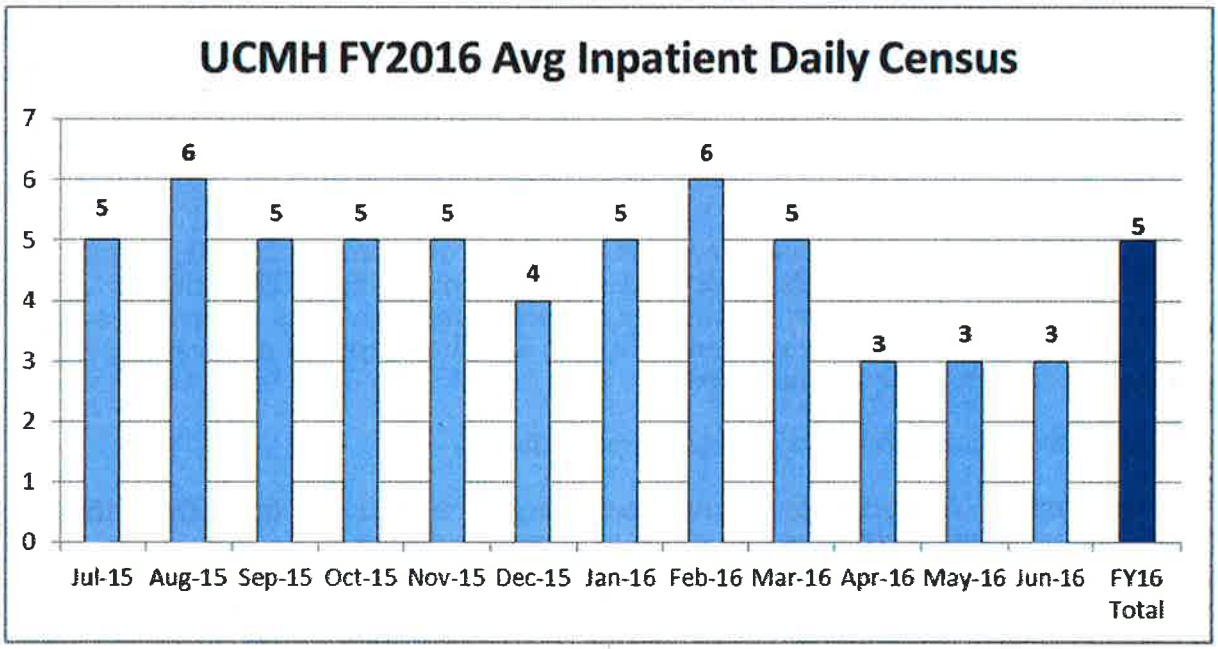
What is the gross square footage of the current facility?

Response: Gross square footage of the current facility totals 44,555 square feet. A revised version of the Square Footage Chart is included in Attachment 1.

3. **Section B, Project Description, Item II.B.**

Please provide a chart/graph that identifies the applicant's daily inpatient census for the most recent year available.

Response: The following table shows UCMH's average inpatient daily census by month for fiscal year 2016 (July 2015-June 2016)



Please describe in detail the outpatient services that will be provided.

Response: All outpatient services offered currently by UCMH will continue to be offered as part of this project as well, with the only potential exception being Sleep Lab. Current services are outlined below:

- General Radiology
- Magnetic Resonance Imaging (MRI)
- Computed Tomography (CT)
- Ultrasound
- Mammography
- Bone Densitometry
- Non-invasive Procedures (Arterial and Venous Studies)
- Invasive Procedures (Thoracentesis and Paracentesis)

- Cardiac Calcium Scoring
- Rehabilitation Services, including Physical Therapy, Occupational Therapy, and Speech Therapy
- Sleep Lab
- Respiratory Services
- Laboratory

UCMH also plans to add Nuclear Medicine to its service offerings at the replacement facility.

Please describe in detail the primary care services that will be provided and discuss where on the floor plan these services will be located.

Response: Primary care services are an essential element in comprehensive patient care through their provision of preventive services, education, counseling, and early diagnosis. As part of this project, the opportunity to develop clinic space to complement other service offerings of the replacement hospital was seen as a significant community benefit.

UCMH will be recruiting to employ a full-time primary care provider. Available space will also be open to community primary care providers that would be interested in leasing space for their clinics. Primary care services will be located in the "Clinic" as identified in the floor plan.

*Please complete the "Existing Location" column in the **SQUARE FOOTAGE AND COST PER SQUARE FOOT CHART.***

Response: The "Existing Location" column in the Square Footage and Cost per Square Foot Chart has been updated, and a revised version of the chart is included in Attachment 1.

4. Section B, Project Description, Item III. (A) (Plot Plan)

The plot plan identifies two areas for future development. Are there specific plans in place for that future development? If yes, please describe.

Response: Currently, no specific plans are in place for the areas identified on the plot plan for future development. These areas were included by the architect as part of the design phase only to proactively address the possibility of future development through the identification of appropriate land.

5. Section B, Project Description, Item IV. (Floor Plan)

Will the inpatient beds all be private?

Response: Yes, each of the ten inpatient beds will be located in ten distinct private rooms.

What is the likelihood that the areas identified for "future beds" and "future surgery" will be developed?

Response: It is unlikely that the proposed replacement facility will require the development of the "future beds" areas. These areas were included by the architect as part of the design phase only to proactively address the possibility of future expansion. The identified expansion areas are thought to be the most effective spaces to align with the layout of the proposed facility and to minimize any construction and renovation costs that would be incurred in the event that expansion would be needed. However, with a projected average inpatient census of approximately 5 in Year 1, the proposed facility will need to exhibit a significant increase in demand over time before the development of additional inpatient beds would be considered.

It is highly unlikely that the "future surgery" area will be developed in the near future. Surgical services are not offered at the current UCMH facility, and there are no plans to institute these services at the proposed replacement facility. This, again, was only included by the architect to proactively address the possibility of future expansion.

Are there specific plans for the areas identified as expansion zones? If yes, please describe.

Response: Currently, no specific plans are in place for the areas identified on the floor plan as "expansion zones." These areas were included by the architect as part of the design phase only to proactively address the possibility of future expansion.

6. **Section C. (Need) 1. Specific Criteria (Construction, Renovation, Expansion, and Replacement of Healthcare Institutions) 2.b**

Using data from the Joint Annual Report (JAR) please complete the following chart:

Response: The table below has been completed using the 2014 Hospital JAR Summary Report for admissions of Unicoi County residents.

Unicoi County Resident Inpatient Destination, 2014

County	Inpatient Admissions	% Total	Cumulative % Total
Washington	1,716	65.3%	65.3%
Unicoi	840	32.0%	97.3%
Sullivan	23	0.9%	98.1%
Davidson	23	0.9%	99.0%
Greene	12	0.5%	99.5%
Knox	11	0.4%	99.9%
Sevier	2	0.1%	100.0%
Hamblen	1	0.0%	100.0%
TOTAL	2,628	100.0%	100.0%

7. **Section C, Need, Item 6**

Your response to this item is noted. Please address the following:

- *Do the historical inpatient volumes include observation days? Please provide a chart that identifies historical and projected observation days and note whether or not the observation days are included in the inpatient volumes.*

Response: The historical inpatient volume (admissions and patient days) included in the application does not include observation visits or observation days.

Below are the historical and projected observation visits and observation days for UCMH. Please note that this observation data is not included in the Inpatient Medical volume provided in the application.

Trends in Observation Volume

	Historical Data			Projected Data	
UCMH	FY2014	FY2015	FY2016	Year 1 FY2020	Year 2 FY2021
Observation Visits	578	393	344	420	433
Observation Days	611	489	389	476	490

Sources: JARs and Internal Data (Historical), Sg2 and Internal Data (Projected)

- *According to the 2016 updated guidelines published by the American College of Emergency Physicians a hospital emergency department generating 10,000 visits annually on the low side should have 7 exam rooms and one extra room for extended stay, which is equivalent to 1,250 visits/room,. The area per room is 825 DGSF and total department construction should be at 8,250 BGSF. For the high estimate the statistics are 8 exam rooms and three extra rooms for extended stay, which is equivalent to 909 visits/room. The area per room guideline is 875 DGSF and total department construction guideline is should be at 9,625 BGSF. Please discuss how the ED in the relocated hospital compares to these guidelines.*

Response: The table below outlines the results of applying the projected Year 1 UCMH ED and Observation Visit totals to the ACEP guidelines. With the ACEP criteria assuming 10,000 visits, a ratio of .8606 was applied to the ACEP square footage and treatment room guidelines since UCMH is projecting 8,606 visits in Year 1 (ED + Observation). When applying this ratio based on projected UCMH visits, the proposed layout of the emergency department for this project is in line with the ACEP guidelines for square footage and exam rooms.

UCMH Emergency Department Compared to ACEP Guidelines

	ACEP Low Side	UCMH Year 1	ACEP High Side
Visits (ED + Observation)	8,606	8,606	8,606
ED Square Footage	7,100	7,134	8,283
ED Treatment Rooms	6	8	7
Extended Stay Rooms	1	2	3
Total Rooms	7	10	9
Visits per Room	1,250	861	909

Applied Ratio of .8606 to ACEP square footage and treatment rooms (8,606/10,000)

- *Please complete the following chart:*

Response: The following table has been completed based on historical and projected Outpatient Visit volumes. Please note that the total outpatient visits described on page 19 of the application do not have a "one-to-one" relationship to other scans, treatments, and procedures. In other words, the volumes on page 19 for various diagnostic scans and outpatient treatments do not relate directly to the total 25,982 outpatient visits listed on the same page in the application. During a single outpatient visit, a patient could have multiple procedures or treatments.

Outpatient Visit Volume Trends

Visit Type	2014	2015	2016	2020	2021
Emergency	8,154	7,897	7,626	8,186	8,350
Lab	8,159	11,481	10,049	10,551	10,815
Observation	578	393	344	420	433
Outpatient in Bed	2	0	10	0	0
Physical Therapy	473	1,122	1,413	1,484	1,521
Respiratory	81	103	60	63	65
Surgery*	519	548	265	0	0
Radiology	3,482	5,473	6,135	6,442	6,506
Sleep Lab	0	10	80	0	0
TOTAL	**21,448**	**27,027**	**25,982**	**27,146**	**27,690**

*Surgical services were discontinued at UCMH in March 2016.

8. **Section C. (Economic Feasibility) Item 1 (Project Cost Chart)**

Please provide a copy of the sales agreement that documents the cost of acquiring the site was $1,600,000.

Response: A copy of the buyer's settlement statement documenting the costs for acquiring the site for the proposed replacement facility is included in Attachment 2.

9. **Section C. (Economic Feasibility) Item 4 (Historical and Projected Data Charts)**

In the Other Expense Charts there are line items for "Fees (Includes Physician and Management). Should any of these expenses be reallocated to Item "D Operating Expenses 8. Management Fees?

Response: After speaking with the MSHA Finance Department, it was determined that this item should be moved to "Fees to Affiliates." The Historical Data Chart has been updated accordingly, and a revised version is included in Attachment 3.

What is included in the Taxes expense?

Response: After further research from the MSHA Finance Department, it was determined that these totals listed in the Taxes expense were actually "interest expenses." The Historical and Projected Data Charts have been updated accordingly, and revised versions of each are included in Attachment 3.

At what point in time does the applicant hospital expect to operate at breakeven and/or realize a net income?

Response: This project is not expected to break even in the foreseeable future, but it will perform better financially than the current facility. MSHA will continue to support UCMH financially through the availability of cash from earnings of the system as a whole.

In the Historical Data Chart the Other Expenses for Year 2015 are listed as $7,480,871; however on the Other Expense Chart are listed as $5,833,937. There appears to be calculation errors in the 2014 column of the Historical Other Expense Chart. Please address these discrepancies.

Response: This discrepancy was unintentional and has been corrected. A revised version of the Historical Data Chart is included in Attachment 3.

There appear to be calculation errors in both columns of the Projected Data Chart. Please make the necessary corrections and submit a revised Projected Data Chart.

Response: A miscalculation was identified for "Supplies" and has been corrected. A revised Projected Data Chart is provided in Attachment 3.

The financial data in the Historical Data Chart appears to be quite different from what was reported in the 2014 JAR. Please explain.

Response: Because UCMH joined MSHA in November 2013, the MSHA Finance Department only has eight months of available data for FY2014 (November 2013-June 2014). The financials provided in the Historical Data Chart for FY2014 are reflective of only eight months, while the 2014 JAR data is for the full twelve months of FY2014.

10. Section C. (Economic Feasibility) Item 5

Please describe how these calculations were made. Is this for the first or second year after project completion? Is this based on inpatient, outpatient, and emergency department gross revenue divided by inpatient days? Please check the calculations and describe what is being calculated.

Response: The calculation included in the application is for fiscal year 2016. "Average gross charge per patient day" is based on gross revenue (inpatient + outpatient + emergency department + other operating revenue) divided by inpatient days. The details for each calculation are provided below.

FY16 Calculations

FY16 Average gross charge per inpatient day = Gross operating revenue / Inpatient days = $49,779,062 / 1,668 = **$29,843**

FY16 Average net charge = Net operating revenue / Inpatient days = $8,428,309 / 1,668 = **$5,052**

FY16 Average deduction from operating revenue = (Gross operating revenue – Net operating revenue) / Gross Operating Revenue = ($49,779,062 - $8,428,309) / $49,779,062 = $41,350,753 / $49,779,062 = **83%**

The same calculations are provided below for Year 1 after project completion since these were not provided in application:

Year 1 Calculations

Year 1 Average gross charge per inpatient day = Gross operating revenue / Inpatient days = $53,310,896 / 2,004 = **$26,602**

Year 1 Average net charge = Net operating revenue / Inpatient days = $8,062,498 / 2,004 = **$4,023**

Year 1 Average deduction from operating revenue = (Gross operating revenue – Net operating revenue) / Gross Operating Revenue = ($53,310,896 - $8,062,498) / $53,310,896 = $45,248,398 / $53,310,896 = **85%**

11. Section C. (Economic Feasibility) Item 9

Your response to this item is noted. Please complete the following chart:

Response: The table below has been completed based on projected gross revenue by payor for Year 1 after project completion.

Payor Source	Gross Revenue Year 1	% of Total Gross Revenue Year 1
Medicare	$15,519,873	29.1%
TennCare	$6,604,140	12.4%
Managed Medicare	$12,894,835	24.2%
Commercial	$12,973,608	24.3%
Charity/Self-Pay	$3,408,438	6.4%
Medicaid	$166,344	0.3%
All Other	$1,743,658	3.3%
Total	$53,310,896	100%

12. Section C. (Contribution to the Orderly Development) Item 3 (Staffing)

Please explain why the Monitor Technician and Polysomnographer FTEs are being eliminated.

Response: Consolidation of telemetry services between UCMH and Sycamore Shoals Hospital, another MSHA facility that works closely with UCMH, has been identified as an operational improvement opportunity and is expected to be implemented sometime in fiscal year 2017. In this new model, UCMH telemetry patients will be monitored remotely from Sycamore Shoals Hospital. As such, the current monitor technician positions at UCMH will be eliminated, but these eliminations will not take place as a result of this project.

UCMH currently offers Sleep Lab services, but UCMH leadership is considering the long-term viability of this service. A final decision will be based on future utilization of this service, which will continue to be monitored, but the application assumes that Sleep Lab services will be discontinued at UCMH by Year 1 of this project.

Please explain why a nuclear medicine tech FTE is being added to the replacement facility.

Response: UCMH plans to introduce nuclear medicine to its service offerings as part of this project. This was not mentioned in the application since it will not meet the major medical equipment criteria as defined by the Agency.

13. Project Completion Forecast Chart

Please note that this application will not be heard any sooner than the December Agency meeting. Please make the appropriate adjustment to the Project Completion Forecast Chart.

Response: The Project Completion Forecast Chart has been updated assuming this application will be heard at the Agency meeting scheduled for December 14, 2016. This updated chart is provided in Attachment 4.

ATTACHMENT 2

Buyer's Settlement Statement for Proposed Site Acquisition

SUPPLEMENTAL #1
August 29, 2016
11:11 am

EDWARD T. BRADING, ATTORNEY AT LAW
208 SUNSET DRIVE, SUITE 409
JOHNSON CITY, TENNESSEE 37604

BUYER'S SETTLEMENT STATEMENT

Date: July 8, 2015
Seller: Deborah English
Buyer: Mountain States Health Alliance
Property: Part of 2020 Temple Hill Road, Erwin, TN 37650-8721

	Charges	Credits
Real property sold (44.5074 ac.)	1,582,486.00	
Earnest money		50,000.00
Inspection Period payments (Sept. 2013 - June 2015)		220,000.00
2015 co. taxes: $3,224 x (189/365); $3,224 x (176/365) x (19/64)		2,130.93
2015 town taxes: $1,297 x (189/365); $1,297 x (176/365) x (19/64)		857.27
Title search, owner's title insurance	4,583.50	
Unicoi Co. Reg. of Deeds, warranty deed	5,883.20	
Unicoi Co. Reg. of Deeds, quitclaim deed	22.00	
Unicoi Co. Reg. of Deeds, easement	32.00	
Treadway Land Surveying Co.	600.00	
Edward T. Brading, Att'y at Law	1,990.00	
Cash from Buyer*		1,322,608.50
Totals	1,595,596.70	1,595,596.70

BUYER:

Mountain States Health Alliance

By: _____

*Cash or certified or official check payable to Edward T. Brading IOLTA Trust Account. Or wire to Regions Bank, "Edward T. Brading IOLTA Trust Account," Wire Routing #062005690, Account #0168272529. Beneficiary's address: 208 Sunset Drive, Suite 409, Johnson City, TN 37604. Beneficiary Bank's address: North Johnson City, 208 Sunset Drive, Johnson City, TN 37604.

SUPPLEMENTAL #1
August 29, 2016
11:11 am

ATTACHMENT

Affidavit for Supplemental Information

SUPPLEMENTAL #1
August 29, 2016
11:11 am

AFFIDAVIT

STATE OF TENNESSEE

COUNTY OF Washington

NAME OF FACILITY: Unicoi County Memorial Hospital

I, Allison M. Rogers, after first being duly sworn, state under oath that I am the applicant named in this Certificate of Need application or the lawful agent thereof, that I have reviewed all of the supplemental information submitted herewith, and that it is true, accurate, and complete.

Allison M. Rogers, VP of Planning
Signature/Title

Sworn to and subscribed before me, a Notary Public, this the 25 day of August, 2016, witness my hand at office in the County of Washington, State of Tennessee.

Teresa A Jackson
NOTARY PUBLIC

My commission expires March 30, 2019.

TERESA A. JACKSON
STATE OF TENNESSEE NOTARY PUBLIC
WASHINGTON COUNTY

HF-0043

Revised 7/02

Supplemental #2
-COPY-

Unicoi Co Memorial Hospital

CN1608-030

1. **Section B, Project Description, Item II.B.**

The chart provided displaying inpatient daily census is noted. During the timeframe identified on the chart, were there any days that the daily inpatient census was 10 or above? If yes, how many days?

Response: In fiscal year 2016, UCMH had 33 days in which inpatient census was 10 or greater. These dates and their respective daily census are provided below. Please note that this is strictly for inpatients and does not include observation patients.

FY2016 Dates with UCMH Inpatient Daily Census of 10 or Greater

Date	Inpatient Census
7/1/2015	10
7/2/2015	10
7/20/2015	10
8/11/2015	10
8/12/2015	12
8/13/2015	14
8/14/2015	12
8/15/2015	10
8/16/2015	13
8/17/2015	13
8/31/2015	10
9/22/2015	11
9/23/2015	11
10/19/2015	10
10/21/2015	11
10/22/2015	10
10/26/2015	10
10/27/2015	10
11/5/2015	13
11/6/2015	10
1/4/2016	10
1/11/2016	10
1/27/2016	10
1/28/2016	10
2/8/2016	10
2/17/2016	10
2/18/2016	10
2/21/2016	10
2/22/2016	12

3/13/2016	11
3/14/2016	12
3/15/2016	16
3/16/2016	11

2. **Section C, Need, Item 6**

Your response regarding the ACEP guidelines is noted. How does the proposed square footage/treatment room compare to the ACEP guidelines?

Response: The emergency department for this proposed project is listed in the application at 7,134 square feet. However, with the size and adjacency of the emergency department and inpatient medical unit, the two departments will be sharing support spaces, such as environmental service rooms, staff lounges, physician workrooms, and nursing office spaces. Per the architect for this project, attribution of the square footage of those support spaces that will be utilized by ED staff to the emergency department total square footage results in an increase of 1,157 square feet, bringing the ED BGSF to 8,291 square feet.

Based on this BGSF of 8,291 square feet and 10 ED treatment rooms, the DGSF per room will be 829 square feet, which is well aligned with the ACEP guidelines. The table below details the comparisons of the replacement facility's ED treatment rooms to the ACEP guidelines.

UCMH Emergency Department Compared to ACEP Guidelines

	ACEP Low Side	UCMH Replacement	ACEP High Side
Total ED Square Footage*	8,250	8,291	9,625
ED DGSF per room	825	829	875

*Note: UCMH total ED square footage includes attributed support space that will be utilized by ED staff in addition to ED square footage identified in application.

3. **Section C. (Economic Feasibility) Item 1 (Project Cost Chart)**

The buyer's settlement statement is noted. Is there a sales document available that is signed by both the buyer and the seller? If yes, please submit a copy of this document.

Response: Attached is the seller's settlement statement that coincides with the buyer's settlement statement. Copies of both the buyer's and seller's settlement statements are included in the attachments.

4. **Section C. (Economic Feasibility) Item 5**

Your response to this is noted. Please complete the following calculations:

FY16

Average Deduction form Operating Revenue = (Gross Operating Revenue - Net Operating Revenue)/1,668

Response:
Average Deduction from Operating Revenue = ($49,779,062 - $8,428,309)/ 1,668 = $41,350,753 / 1,668 = **$24,791**

Year 1

Average Deduction form Operating Revenue = (Gross Operating Revenue - Net Operating Revenue)/2,004

Response:
Average Deduction from Operating Revenue = ($53,310,896 - $8,062,498)/ 2,004 = $45,248,398 / 2,004 = **$22,579**

SUPPLEMENTAL #2
August 31, 2016
11:42 am

Mountain States Health Alliance
Unicoi County Memorial Hospital Replacement Hospital Project
Certificate of Need Supplemental Information Attachments

Attachment 1: Seller's Settlement Statement and Buyer's Settlement Statement for Proposed Site Acquisition

Attachment: Affidavit for Supplemental Information

SUPPLEMENTAL #2
August 31, 2016
11:42 am

ATTACHMENT 1

Seller's Settlement Statement and Buyer's Settlement Statement for Proposed Site Acquisition

EDWARD T. BRADING, ATTORNEY AT LAW
208 SUNSET DRIVE, SUITE 409
JOHNSON CITY, TENNESSEE 37604

SELLER'S SETTLEMENT STATEMENT

Date:	July 8, 2015
Seller:	Deborah English
Buyer:	Mountain States Health Alliance
Property:	Part of 2020 Temple Hill Road, Erwin, TN 37650-8721

	Charges	Credits
Real property sold (44.5074 ac.)		1,582,486.00
Earnest money	50,000.00	
Inspection Period payments (Sept. 2013 - June 2015)	220,000.00	
2015 co. taxes: $3,224 x (189/365); $3,224 x (176/365) x (19/64)	2,130.93	
2015 town taxes: $1,297 x (189/365); $1,297 x (176/365) x (19/64)	857.27	
Unicoi Co. Reg. of Deeds, release of First Bank	37.00	
Unicoi Co. Reg. of Deeds, UCC-3 amendment	30.00	
Tennessee Sec. of State, UCC-3 amendment	15.00	
First Bank, payoff	1,216,313.00	
Corridor Properties, LLC, 4% commission	63,299.44	
Net sale proceeds	29,803.36	
Totals	1,582,486.00	1,582,486.00

SELLER:

Deborah English

Orville English

SUPPLEMENTAL #2
August 31, 2016
11:42 am

EDWARD T. BRADING, ATTORNEY AT LAW
208 SUNSET DRIVE, SUITE 409
JOHNSON CITY, TENNESSEE 37604

BUYER'S SETTLEMENT STATEMENT

Date:	July 8, 2015
Seller:	Deborah English
Buyer:	Mountain States Health Alliance
Property:	Part of 2020 Temple Hill Road, Erwin, TN 37650-8721

	Charges	Credits
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Unicoi Co. Reg. of Deeds, easement	32.00	
Treadway Land Surveying Co.	600.00	
Edward T. Brading, Att'y at Law	1,990.00	
Cash from Buyer*		1,322,608.50
Totals	1,595,596.70	1,595,596.70

BUYER:

Mountain States Health Alliance

By: _____

*Cash or certified or official check payable to Edward T. Brading IOLTA Trust Account. Or wire to Regions Bank, "Edward T. Brading IOLTA Trust Account," Wire Routing #062005690, Account #0168272529. Beneficiary's address: 208 Sunset Drive, Suite 409, Johnson City, TN 37604. Beneficiary Bank's address: North Johnson City, 208 Sunset Drive, Johnson City, TN 37604.

SUPPLEMENTAL #2
August 31, 2016
11:42 am

ATTACHMENT

Affidavit for Supplemental Information

SUPPLEMENTAL #2
August 31, 2016
11:42 am

AFFIDAVIT

STATE OF TENNESSEE

COUNTY OF Washington

NAME OF FACILITY: Unicoi County Memorial Hospital

I, Allison M. Rogers, after first being duly sworn, state under oath that I am the applicant named in this Certificate of Need application or the lawful agent thereof, that I have reviewed all of the supplemental information submitted herewith, and that it is true, accurate, and complete.

Allison M. Rogers, VP of Planning
Signature/Title

Sworn to and subscribed before me, a Notary Public, this the 30th day of August, 2016, witness my hand at office in the County of Washington, State of Tennessee.

Teresa A. Jackson
NOTARY PUBLIC

My commission expires March 30, 2019.

TERESA A. JACKSON
STATE OF TENNESSEE
NOTARY PUBLIC
WASHINGTON COUNTY

HF-0043

Revised 7/02

Supplemental #2 Additional Info

-COPY-

Unicoi Co Memorial Hospital

CN1608-030

SUPPLEMENTAL #2
August 31, 2016
4:29 pm

1. Section B, Project Description, Item II.B.

If the inpatient census patterns of the replacement hospital mirror the inpatient census patterns of the current hospital's FY 2016, there may be some days where all ten inpatient beds will be filled and there will be other patients presenting in the emergency department in need of an inpatient bed. What will the applicant do in that scenario?

Response: As described previously, UCMH had 33 days in which inpatient census was ten or greater for fiscal year 2016. However, only 14 of those 33 days had a census greater than ten. Moreover, UCMH only had 5 days in the last six months of FY2016 in which inpatient census was greater than ten. National projections show that inpatient admissions will continue to decline in coming years, so no major inpatient shifts are expected in the project service area.

In light of recent trends and based on the anticipated continuing decline in admissions, it is unlikely that the proposed replacement facility's inpatient census will exceed 10. However, in the event admissions are greater than anticipated, UCMH has multiple options to ensure inpatient services are provided to those seeking care:

- In the unlikely event that all inpatient beds are full, UCMH will utilize its relationships with other local providers, such as Franklin Woods Community Hospital and Johnson City Medical Center, to transfer patients quickly after being stabilized and admit them to an appropriate inpatient setting.
- UCMH would have the option to utilize the "10% rule" to increase its number of licensed beds if needed from 10 to 11, and there is space in the facility to accommodate this addition.
- If inpatient utilization exceeds the volume that could be accommodated with the addition of 1 bed, then UCMH could seek CON approval for additional beds. The project's floor plan includes ample space for future development that can be used for additional beds.

SUPPLEMENTAL #2
August 31, 2016
4:29 pm

ATTACHMENT

Affidavit for Supplemental Information

SUPPLEMENTAL #2
August 31, 2016
4:29 pm

AFFIDAVIT

STATE OF TENNESSEE

COUNTY OF Washington

NAME OF FACILITY: Unicoi County Memorial Hospital

I, Allison M. Rogers, after first being duly sworn, state under oath that I am the applicant named in this Certificate of Need application or the lawful agent thereof, that I have reviewed all of the supplemental information submitted herewith, and that it is true, accurate, and complete.

Allison M. Rogers, VP of Planning
Signature/Title

Sworn to and subscribed before me, a Notary Public, this the 31 day of August, 20 16, witness my hand at office in the County of Washington, State of Tennessee.

Teresa A. Jackson
NOTARY PUBLIC

My commission expires March 30, 2019.

HF-0043

Revised 7/02

TERESA A. JACKSON
STATE OF TENNESSEE NOTARY PUBLIC
WASHINGTON COUNTY

State of Tennessee
Health Services and Development Agency
Andrew Jackson Building, 9th Floor
502 Deaderick Street
Nashville, TN 37243
www.tn.gov/hsda Phone: 615-741-2364 Fax: 615-741-9884

LETTER OF INTENT

The Publication of Intent is to be published in the Erwin Record (Name of Newspaper) which is a newspaper of general circulation in Unicoi (County), Tennessee, on or before August 10th (Month / day), 2016, (Year) for one day.

This is to provide official notice to the Health Services and Development Agency and all interested parties, in accordance with T.C.A. § 68-11-1601 *et seq.*, and the Rules of the Health Services and Development Agency, that:

Unicoi County Memorial Hospital (Name of Applicant) a hospital (Facility Type-Existing)

owned by: Mountain States Health Alliance with an ownership type of Not-for-Profit Corporation

and to be managed by: itself intends to file an application for a Certificate of Need for: the relocation and replacement of the existing hospital. The replacement facility will include 10 acute care beds and an emergency department with 10 treatment rooms. The replacement facility will be located at an unaddressed site on Temple Hill Road, Erwin, TN 37650. The project will result in the relocation of all other current services to the new facility, and no major services will be initiated or discontinued. The replacement facility will occupy 41,500 square feet. The estimated project cost is $19,999,141.

The anticipated date of filing the application is: August 15th, 2016

The contact person for this project is Allison Rogers (Contact Name) VP, Strategic Planning (Title)

who may be reached at: Mountain States Health Alliance (Company Name) 303 Med Tech Parkway, Suite #330 (Address)

Johnson City (City)	TN (State)	37604 (Zip Code)	423/302-3378 (Area Code / Phone Number)
Allison M. Rogers (Signature)		8/9/2016 (Date)	RogersAM@msha.com (E-mail Address)

The Letter of Intent must be filed in triplicate and received between the first and the tenth day of the month. If the last day for filing is a Saturday, Sunday or State Holiday, filing must occur on the preceding business day. File this form at the following address:

Health Services and Development Agency
Andrew Jackson Building, 9th Floor
502 Deaderick Street
Nashville, Tennessee 37243

The published Letter of Intent must contain the following statement pursuant to T.C.A. § 68-11-1607(c)(1). (A) Any health care institution wishing to oppose a Certificate of Need application must file a written notice with the Health Services and Development Agency no later than fifteen (15) days before the regularly scheduled Health Services and Development Agency meeting at which the application is originally scheduled; and (B) Any other person wishing to oppose the application must file written objection with the Health Services and Development Agency at or prior to the consideration of the application by the Agency.

MOUNTAIN STATES HEALTH ALLIANCE

400 N. State of Franklin Road • Johnson City, TN 37604
423-431-6111

November 18, 2016

Ms. Melanie Hill
Health Services and Development Agency
Andrew Jackson Building, Ninth Floor
502 Deaderick Street Nashville, TN 37243

RE: Certificate of Need Application CN1608-030
Mountain States Health Alliance

Dear Ms. Hill:

Please find enclosed a collection of letters in support of Mountain States Health Alliance's application proposing the relocation and replacement of Unicoi County Memorial Hospital (Certificate of Need Application CN1608-030).

If you have any questions, please do not hesitate to contact me at 423-302-3428.

Sincerely,

Brandon Barnett
Senior Planning Analyst

Erwin Utilities

November 10, 2016

Ms. Melanie Hill
Tennessee Health Services and Development Agency
Andrew Jackson Bldg., 9th Floor
502 Deaderick Street
Nashville, TN 37243

Re: Unicoi County Memorial Hospital Relocation and Replacement Project, CN1608-030

Dear Ms. Hill,

This letter is submitted on behalf of Mountain States Health Alliance (MSHA) in support of relocating and building a replacement hospital for Unicoi County Memorial Hospital (UCMH). Unicoi County Memorial Hospital was built in 1953 as an inpatient facility; since that time, it has come to the end of its useful life. Operation, maintenance and repair costs for this facility continue to increase in order to maintain the hospital sufficiently for patient care. UCMH is the only acute care facility located in Unicoi County, Tennessee. The hospital is located in a heavily congested school district of downtown Erwin, Tennessee. Three schools and a manufacturing plant are within 0.2 miles of the existing hospital, which make access difficult for patients and local EMS.

This project proposes to build a new acute care hospital with ten (10) inpatient beds and ten (10) emergency department treatment rooms, two of which will be constructed to allow for the care of observation patients. The new hospital will also include radiology services such as CT and MRI, outpatient rehab, and the inclusion of ample office space for primary care providers. The need for additional primary care providers and the increasing demand for outpatient services have been identified as the community's greatest needs.

This proposed replacement hospital will be accessible to all Unicoi County residents. It will be located less than 0.4 miles from Exit 40, just off Interstate 26. The proposed replacement facility will continue to provide inpatient services, and it will be designed to accommodate the expected growth of outpatient services and the future healthcare needs of the community.

MSHA has my full support in this proposed project, and your consideration of this project is greatly appreciated.

Sincerely,

ERWIN UTILITIES

Lee H Brown

Lee H. Brown
General Manager

244 Love Street PO Box 817 Erwin, Tennessee 37650 423 743 1820 fax: 423 743 1833

September 23, 2016

Melanie Hill
Tennessee Health Services and Development Agency
Andrew Jackson Bldg., 9th Floor
502 Deaderick Street
Nashville, TN 37243

Re: Unicoi County Memorial Hospital Relocation and Replacement Project, CN1608-030

Dear Ms. Hill,

This letter is submitted on behalf of Mountain States Health Alliance (MSHA) in support of relocating and building a replacement facility for Unicoi County Memorial Hospital (UCMH).

UCMH is the only acute care facility in Unicoi County, TN, and it plays a vital role in the delivery of healthcare to our community. However, the current facility is at the end of its lifespan and has required significant funds in recent years to keep the hospital in a state sufficient for patient care. The current facility's design and location will not effectively meet the long-term needs of the community.

This project will replace an aging hospital with a state-of-the-art facility that will be designed to meet the current and future healthcare needs of the community it serves. This proposed replacement facility's location near Interstate 26 will also be more easily accessible to Unicoi County residents as a whole compared to the current facility. The proposed facility will continue to provide inpatient services, and it will be designed to accommodate the expected growth of outpatient services. The new facility will also include clinic space for primary care, which has been identified as one of the community's most needed services. For these reasons described above, there is a tremendous need to relocate and replace the current UCMH facility.

MSHA has my full support in this project, and your consideration of this project is greatly appreciated.

Sincerely,

Loren Thomas
I serve on the following:
Unicoi County Commission
Unicoi County Planning Commission
Unicoi County Public Library Board
Unicoi County Memorial Hospital Community Board

Clinchfield
FEDERAL CREDIT UNION

Melanie Hill
Tennessee Health Services and Development Agency
Andrew Jackson Bldg. 9th Floor
502 Deaderick Street
Nashville, TN 37243

Re: Unicoi County Memorial Hospital Relocation and Replacement Project, CN1608-030

Dear Ms. Hill,

This letter is submitted on behalf of Mountain States Health Alliance (MSHA) in support of relocating and building a replacement facility for Unicoi County Memorial Hospital.

Since 1953 our community has been blessed with having excellent health care at Unicoi County Memorial Hospital. We are a small, rural area with an aging population but also there are lots of opportunities for our young people to participate in outdoor activities such as hiking, canoeing, hunting, whitewater rafting, etc. We also have a large number of railroaders and the other largest industry is Nuclear Fuel Services.

With the aging population there are basic health care needs and, of course, emergency needs that come with heart attacks, strokes, and age related illnesses. With our young people, there are always accidents that occur as they take advantage of all of the activities of the "Valley Beautiful". Our two largest industries are, unfortunately, somewhat dangerous. Therefore it is of the greatest importance that we have a medical facility able to take care of all of these.

Our hometown hospital has always been able to provide that care but with the age of the building and the economy the way it is, it is no longer feasible for it to continue.

With excellent in-patient care through Mountain States within a 20 minute drive, we have more need of emergency services and out-patient services. The proposed replacement facility would serve these needs along with some space for primary care. Also, there are plans for future growth, which to me is one of the most important things to consider.

The proposed location is excellent in that it can be accessed from all parts of the community in just a matter of minutes. Located only .4 miles from Interstate 26 makes it perfect as this Interstate runs parallel to our town and there are 7 entrances/exits along the way in the county.

MSHA has my full support in this project and your consideration of this project is greatly appreciated.

Sincerely,

Sandy Lingerfelt

Sandy Lingerfelt, CEO
Clinchfield Federal Credit Union

NORTH MAIN AVE. # 1038
PO BOX # 310
PHONE # 423-743-9192
TENNESSEE 37650

October 20, 2016

Melanie Hill
Tennessee Health Services and Development Agency
Andrew Jackson Bldg., 9th Floor
502 Deaderick Street
Nashville, TN 37243

Re: Unicoi County Memorial Hospital Relocation and Replacement Project, CN1608-030

Dear Ms. Hill,

This letter is submitted on behalf of Mountain States Health Alliance (MSHA) in support of relocating and building a replacement facility for Unicoi County Memorial Hospital (UCMH).

UCMH is the only acute care facility in Unicoi County, TN, and it plays a vital role in the delivery of healthcare to our community. However, the current facility is at the end of its lifespan and has required significant funds in recent years to keep the hospital in a state sufficient for patient care. The current facility's design and location will not effectively meet the long-term needs of the community.

This project will replace an aging hospital with a state-of-the-art facility that will be designed to meet the current and future healthcare needs of the community it serves. This proposed replacement facility's location near Interstate 26 will also be more easily accessible to Unicoi County residents as a whole compared to the current facility. The proposed facility will continue to provide inpatient services, and it will be designed to accommodate the expected growth of outpatient services. The new facility will also include clinic space for primary care, which has been identified as one of the community's most needed services. For these reasons described above, there is a tremendous need to relocate and replace the current UCMH facility.

MSHA has my full support in this project, and your consideration of this project is greatly appreciated.

Sincerely,

Sue Jean Wilson

Sue Jean Wilson,
Board Secretary

October 19, 2016

Melanie Hill
Tennessee Health Services and Development Agency
Andrew Jackson Bldg., 9th Floor
502 Deaderick Street
Nashville, TN 37243

Re: Unicoi County Memorial Hospital Relocation and Replacement Project, CN1608-030

Dear Ms. Hill,

This letter is submitted on behalf of Mountain States Health Alliance (MSHA) in support of relocating and building a replacement facility for Unicoi County Memorial Hospital (UCMH).

Dr. Harmon L. Monroe, my late father-in-law, began practicing medicine in Erwin in 1934. He had a passion for providing superior medical care for the residents of Unicoi County. He worked tirelessly to obtain funds to build the current hospital. It opened in 1953 and operated as an independent hospital until 2013.

In 2013, MSHA assumed control of UCMH and agreed to build a state of the art replacement facility. This replacement facility is scheduled to open in the fall of 2018.The new facility will be designed to better meet the future healthcare needs for the community. The present UCMH facility has served the community well since it opened in 1953, but it requires a lot of maintenance and was designed for inpatient care. The newly designed facility is designed to better meet the present and future healthcare needs of the community.

MSHA has my full support in this project, and your consideration of this project is greatly appreciated.

Sincerely,

James G. Tilson
Major (USA Ret.)
Board Member

505 Ash Street
Erwin, TN 37650

103 Myrtle Avenue
Erwin, Tennessee 37650
October 27, 2016

Melanie Hill
Tennessee Health Services and Development Agency
Andrew Jackson Bldg., 9th Floor
502 Deaderick Street
Nashville, Tennessee 37243

Re: Unicoi County Memorial Hospital Relocation and Replacement Project, CN1608-030

Dear Ms. Hill:

This letter is submitted on behalf of Mountain States Health Alliance (MSHA) in support of relocating and building a replacement facility for Unicoi County Memorial Hospital (UCMH).

UCMH is the only acute care facility in Unicoi County, TN, and it plays a vital role I the delivery of healthcare to our community. However, the current facility is at the end of its lifespan and has required significant funds in recent years to keep the hospital in a state sufficient for patient care. The current facility's design and location will not effectively meet the long-term needs of the community.

This project will replace an aging hospital with a state-of-the-art facility that will be designed to meet the current and future healthcare needs of the community it serves. This proposed replacement facility's location near Interstate 26 will also be more easily accessible to Unicoi County residents as a whole compared to the current facility. The proposed facility will continue to provide impatient services, and it will be designed to accommodate the expected growth of outpatient services. The new facility will also include clinic space for primary care, which has been identified as one the community's most needed services. For these reasons described above, there is a tremendous need to relocate and replace the current UCMH facility.

MSHA has my full support in this project, and your consideration of this project will be greatly appreciated.

Sincerely,

William B. Hensley

October 10, 2016

Melanie Hill
Tennessee Health Services and Development Agency
Andrew Jackson Building, 9th Floor
502 Deaderick Street
Nashville, TN 37243

Re: Unicoi County Memorial Hospital Relocation and Replacement Project, CN1608-030

Dear Ms. Hill:

This letter is submitted on behalf of Mountain States Health Alliance (MSHA) in support of relocating and building a replacement facility for Unicoi County Memorial Hospital (UCMH).

Unicoi County Memorial Hospital is the only acute care facility in Unicoi County to provide healthcare for our community.. The hospital was built in 1953 and is showing its age. It has required major maintenance and repairs in recent years to the point of not being cost effective for keeping our hospital in a state sufficient for our patients. Since MSHA purchased Unicoi County Memorial Hospital, they have made major improvements in our facility and the quality of treatment received by our citizens.

The new hospital will replace our present hospital with a state-of-the-art facility located near Interstate 26. The new facility will be more easily accessible to our residents and especially to our large population of retired citizens in need of quick, professional medical care.

The new facility will be designed to meet both the inpatient and outpatient needs of our citizens. The demand for outpatient services continues to grow in Unicoi County, and it will be designed to accommodate the expected growth of these services. It will also include clinic space for primary care. Our citizens will be able to stay close to home and not have to travel to another city for tests or treatment. This will be a great advantage for the patients and their families.

A hospital is the crown jewel of any community. If you loose your hospital, you have lost a major part of your community. We are blessed to have a proposed new hospital for Unicoi County.

Mountain State Health Alliance has my support of this project, and I would appreciate your consideration.

Sincerely,

Roland D. Bailey
Unicoi County Community Board, Vice Chairman

MOUNTAIN EMPIRE RADIOLOGY, P.C.
1301 SUNSET DRIVE, SUITE 3
JOHNSON CITY, TN 37604

October 16, 2016

Melanie Hill
Tennessee Health Services and Development Agency
Andrew Jackson Bldg., 9th Floor
502 Deadrick Street
Nashville, TN 37243

RE: Unicoi County Memorial Hospital Relocation and Replacement Project, CN 1608-030.

Dear Ms. Hill,

This letter is submitted by Mountain Empire Radiology on behalf of Mountain States Health Alliance (MSHA) in support of relocating and building a replacement facility for Unicoi County Memorial Hospital.

UCMH is the only acute care facility operating in Unicoi County. It plays a vital role in the delivery of healthcare to the local community.

The current facility was built in 1953 and is at the end of its lifespan. It has required significant funding in recent years to keep the hospital in a state sufficient for patient care.

The replacement facility has been designed to meet the current and future health care needs of our community. While the current facility's space and configuration is weighted toward care in the inpatient setting, the new hospital is designed to effectively manage the shift in demand from the inpatient setting to outpatient services. The new facility will also include clinic space for primary care, which has been identified as one of the community's most needed services.

MSHA has our full support in this proposed facility plan and your consideration of this project is greatly appreciated.

Sincerely,

Guy Wheeler, MD
Radiologist, Mountain Empire Radiology
Chief of Staff, Unicoi County Memorial Hospital

RUSTY CROWE
3RD SENATORIAL DISTRICT
CARTER, UNICOI, & WASHINGTON COUNTIES

808 E. 8TH AVENUE
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Senate Chamber
State of Tennessee
NASHVILLE

CHAIR
HEALTH AND WELFARE

MEMBER OF COMMITTEES
EDUCATION
GOVERNOR'S COUNCIL FOR ARMED FORCES, VETERANS, AND THEIR FAMILIES
GOVERNMENT OPERATIONS

October 13, 2016

Tennessee Health Services and Development Agency
Melanie M. Hill
502 Deaderick Street
Andrew Jackson Building, 9th Floor
Nashville, TN 37243

Director Hill,

It has come to my attention that our current hospital in Unicoi County, a Mountain States Health Alliance facility, is at the end of its lifespan. It is requiring significant funding to maintain; not only structurally, but in a state sufficient for patient care. The current size, design and location will not meet the needs of this community, especially as time goes on.

As per this letter, I am asking for your support in relocating and building a replacement facility for "Unicoi County Memorial Hospital (UCMH)".

In replacing this aging hospital, we will not only be insuring state of the art healthcare needs, but providing for accessibility to the whole Unicoi County.

I am hearing from my constituents who are excited about the prospects of this replacement facility; especially in terms of not only the potential for continued inpatient and outpatient services, but for a possible growth in specialty services as well.

I am pleased to support; and again ask for your support of this extremely important Mountain States Health Alliance project to relocate and replace the current Unicoi County Memorial Hospital facility.

As ever, I appreciate all you do for the people and communities we both serve.

Sincerely

Rusty Crowe

Senator Rusty Crowe
Chair, Senate Health and Welfare
3rd Senatorial District

Erwin Tennessee Police Department

211 North Main Avenue Erwin Tennessee 37650
Phone (423) 743-1871 – Fax (423) 743-3983
J. Regan Tilson – Chief of Police

10-20-2016

Melanie Hill

Tennessee Health Services and Development Agency

Andrew Jackson Bldg., 9th Floor

502 Deaderick Street

Nashville, TN 37243

Re: Unicoi County Memorial Hospital Relocation and Replacement Project, CN 1608-030

Dear Ms. Hill,

This letter is submitted on behalf of Mountain States Health Alliance in support of relocating and building a replacement facility for Unicoi County Memorial Hospital.

UCMH is the only acute care facility in Unicoi County, TN, and it plays a vital role in the delivery of healthcare to our community. The current facility is at the end of its lifespan and has required significant funds in recent years to keep in a sufficient state for patient care. The current facilities design and location will not effectively meet the long term needs of the community.

This project will replace an ageing facility with a state of the art hospital that will be designed to meet the current and future needs of the community. This proposed facility's location near Interstate 26 will also be more accessible to Unicoi County residents as a whole compared to the current location.

The proposed replacement facility will continue to provide inpatient services, and it will be designed to accommodate the expected growth of outpatient services. The new facility will also include clinic space for primary care, which has been identified as one of our communities most needed services. The proposed facility will include radiology services to include CT and MRI ability and outpatient rehab.

MSHA has my full support in this project, and your consideration is greatly appreciated.

J. Regan Tilson

J. Regan Tilson, Chief

Erwin TN Police Dept.

DORIS D. HENSLEY, Mayor
cityoferwin@comcast.net

Town of Erwin
211 N. Main Avenue • P.O. Box 59
Erwin, Tennessee 37650
(423) 743-6231

October 27, 2016

Melanie Hill
Tennessee Health Services and Development Agency
Andrew Jackson Bldg., 9th Floor
502 Deaderick Street
Nashville, Tennessee 37650

Re: Unicoi County Memorial Hospital Relocation and Replacement Project, CN 1608-030

Dear Ms. Hill:

It is my pleasure to offer a letter of support on behalf of Mountain States Health Alliance for the replacement and relocation of the Unicoi County Memorial Hospital.

Unicoi County is a rural community with an aging population. Unicoi County Memorial Hospital is a vital asset to our town as it is the only acute care facility in the community. However, the current facility is in need of serious structural rehabilitation, to the point that it would be more cost effective to replace the facility than to try to repair it. We are in dire need of clinic space and lab space, but no room for expansion at the current location.

This proposed project will provide a state-of-the-art medical facility that will meet the needs of our citizens, as well as others in surrounding communities, with space for expansion when needed. The proposed facility will be located near Interstate 26, exit 40, which will be visible and easily accessible to emergency traffic.

Again, allow me to stress the importance of this tremendous need to relocate and replace the current UCMH facility.

Thank you for your time, and your favorable consideration to this request will be greatly appreciated.

Sincerely,

Doris D. Hensley
Mayor

Monroe
FOUNDATION

November 10. 2016

Melanie Hall
Tennessee Health Services and Development Agency
Andrew Jackson Bldg. 9th Floor
502 Deaderick Street
Nashville, TN 37243

Re: Unicoi County Memorial Hospital Relocation and Replacement Project, CNI608-030

Dear Ms. Hill,

This letter is submitted on behalf of Mountain States Health Alliance (MSHA) in support of relocating and building a replacement facility for Unicoi County Memorial Hospital (UCMH).

When UCMH opened in 1953, it was the only acute care facility in Unicoi County. It included an Operating Room, a Delivery Room, and an Emergency Room, along with the supporting X-Ray and Laboratory Departments. It was very modern with the in-room oxygen system and a state of the art in-room communications link with the Nurse's Station. My father, Dr. Harmon L. Monroe, was the first Chief of Staff and was instrumental in securing funding, etc., for the hospital.

However, the current 63 year old facility is at the end of its lifespan and requires significant funds to keep the hospital in a state sufficient for patient care. Its design and location will not effectively meet the changing long-term needs of the community.

The proposal to locate the new state-of-the-art, acute care facility near Interstate 26 will provide easier access to people seeking the medical care provided by both the inpatient services and outpatient services which will be available.

MSHA has my full support in this project, and your consideration of this project is greatly appreciated.

Sincerely,

Carol M. Tilson

Carol M. Tilson, President
The Dr. Harmon L. Monroe and
Mary H. Monroe Foundation, Inc.

RULES
OF
HEALTH SERVICES AND DEVELOPMENT AGENCY

CHAPTER 0720-11
CERTIFICATE OF NEED PROGRAM – GENERAL CRITERIA

TABLE OF CONTENTS

0720-11-.01 GENERAL CRITERIA FOR CERTIFICATE OF NEED. The Agency will consider the following general criteria in determining whether an application for a certificate of need should be granted:

(1) Need. The health care needed in the area to be served may be evaluated upon the following factors:

(a) The relationship of the proposal to any existing applicable plans;

(b) The population served by the proposal;

(c) The existing or certified services or institutions in the area;

(d) The reasonableness of the service area;

(e) The special needs of the service area population, including the accessibility to consumers, particularly women, racial and ethnic minorities, TennCare participants, and low-income groups;

(f) Comparison of utilization/occupancy trends and services offered by other area providers;

(g) The extent to which Medicare, Medicaid, TennCare, medically indigent, charity care patients and low income patients will be served by the project. In determining whether this criteria is met, the Agency shall consider how the applicant has assessed that providers of services which will operate in conjunction with the project will also meet these needs.

(2) Economic Factors. The probability that the proposal can be economically accomplished and maintained may be evaluated upon the following factors:

(a) Whether adequate funds are available to the applicant to complete the project;

(b) The reasonableness of the proposed project costs;

(c) Anticipated revenue from the proposed project and the impact on existing patient charges;

(d) Participation in state/federal revenue programs;

(e) Alternatives considered; and

(f) The availability of less costly or more effective alternative methods of providing the benefits intended by the proposal.

(3) Contribution to the Orderly Development of Adequate and Effective Healthcare Facilities and/or Services. The contribution which the proposed project will make to the orderly development of an adequate and effective health care system may be evaluated upon the following factors:

(Rule 0720-11-.01, continued)

(a) The relationship of the proposal to the existing health care system (for example: transfer agreements, contractual agreements for health services, the applicant's proposed TennCare participation, affiliation of the project with health professional schools);

(b) The positive or negative effects attributed to duplication or competition;

(c) The availability and accessibility of human resources required by the proposal, including consumers and related providers;

(d) The quality of the proposed project in relation to applicable governmental or professional standards.

(4) Applications for Change of Site. When considering a certificate of need application which is limited to a request for a change of site for a proposed new health care institution, The Agency may consider, in addition to the foregoing factors, the following factors:

(a) Need. The applicant should show the proposed new site will serve the health care needs in the area to be served at least as well as the original site. The applicant should show that there is some significant legal, financial, or practical need to change to the proposed new site.

(b) Economic factors. The applicant should show that the proposed new site would be at least as economically beneficial to the population to be served as the original site.

(c) Contribution to the orderly development of health care facilities and/or services. The applicant should address any potential delays that would be caused by the proposed change of site, and show that any such delays are outweighed by the benefit that will be gained from the change of site by the population to be served.

(5) Certificate of need conditions. In accordance with T.C.A. § 68-11-1609, The Agency, in its discretion, may place such conditions upon a certificate of need it deems appropriate and enforceable to meet the applicable criteria as defined in statute and in these rules.

Authority: *T.C.A. §§ 4-5-202, 68-11-1605, and 68-11-1609.* ***Administrative History:*** *Original rule filed August 31, 2005; effective November 14, 2005.*

CERTIFICATE OF NEED
REVIEWED BY THE DEPARTMENT OF HEALTH
DIVISION OF POLICY, PLANNING AND ASSESSMENT
615-741-1954

DATE: October 31, 2016

APPLICANT: Unicoi County Memorial Hospital
Unaddressed Site Temple Hill Road
Erwin, Tennessee 37650

CN1608-030

CONTACT PERSON: Allison Rogers

COST: $19,999,141

In accordance with Section 68-11-1608(a) of the Tennessee Health Services and Planning Act of 2002, the Tennessee Department of Health, Division of Policy, Planning, and Assessment, reviewed this certificate of need application for financial impact, TennCare participation, compliance with *Tennessee's State Health Plan*, and verified certain data. Additional clarification or comment relative to the application is provided, as applicable, under the heading "Note to Agency Members."

SUMMARY:

The applicant, Unicoi County Memorial Hospital (UCMH), seeks Certificate of Need (CON) approval for the relocation and replacement of the existing hospital located at 100 Greenway Circle, Erwin, TN. The proposed new facility will be located at an unspecified address on Temple Hill Road, remaining in Erwin, TN. The application provides for the building 41,500 square foot, 10 private bed acute care replacement facility, including a 10 treatment room emergency department to be operated 24 hours per day. In addition, the facility will provide ancillary services, outpatient rehabilitation, and add space for physician provider offices.

In November 2013, UCMH was acquired wholly by Mountain States Health Alliance (MSHA). According to the applicant, part of the UCMH purchase agreement was a commitment for MSHA to build a new hospital in Unicoi County within 5 years of the acquisition, which contained a minimum of 20 total beds. This project will fulfill that commitment.

Cost per square foot is $332.19 per square foot, outlined on page 11 of the application. This cost is in line with other approved hospital construction costs. Funding for the project will be provided through existing MSHA cash reserves. A letter from MSHA Chief Financial Officer attests that there is sufficient cash available to fully fund the project. See Attachment C. Economic Feasibility 2 of the application.

GENERAL CRITERIA FOR CERTIFICATE OF NEED

The applicant responded to all of the general criteria for Certificate of Need as set forth in the document *Tennessee's State Health Plan.*

NEED:

County	2016 Population	2020 Population	% of Increase/ (Decrease)
Unicoi	**18,847**	**19,150**	**1.6%**

Tennessee Population Projections 2000-2020, 2015 Revised UTCBER, Tennessee Department of Health

The applicant has defined Unicoi County as the project's service area. According to the 2014 Joint Annual Report for Hospitals, approximately 90% for UCMH patients resided in Unicoi County.

UCMH is the only hospital located in Unicoi County. It is a 48 bed acute care hospital located at 100 Greenway Circle, Erwin, TN. The facility was built in 1953 with much of the infrastructure remaining from the original construction. MSHA has spent significant dollars maintaining the facility, with over $1.6 million in maintenance and repair costs over the last three years. For practical and fiscal purposes, the facility is at the end of its lifespan, and it is cost prohibitive to continuing maintain the aged structure.

Additionally, UCMH staffs only 11 beds of the licensed 48 beds with an average daily census of 5 patients. The project will provide for the replacement of an aging hospital with a state of the art facility and one more in line with future expected volumes while continuing to offer programs that are expected to grow, such as diagnostic imaging, respiratory services, and outpatient rehabilitation. While inpatient admissions are expected to continue to decline, the new facility will enable UMCH to maintain the most needed acute inpatient care, while preparing for the future trend of expanded outpatient services.

Historical Data				Projected Data	
UCMH	FY2014	FY2015	FY2016	YR1 2020	YR2 2021
Admissions	962	720	500	605	593
Patient Days	3898	2830	1668	2004	1927
Inpatient Occupancy	22%	16%	9.5%	55%	53%
Licensed Beds	48	48	48	10	10
Staffed Beds	13	11	11	10	10

According to the historical data chart and the Joint Annual Reports for Hospitals, emergency department volumes have declined over the past few years. Conversely, the applicant expects to see ED volumes grow in both year one and two of the project. The applicant states that significant volumes of ED patients whom reside in Unicoi County are being treated at Johnson City Medical Center rather than UCMH. UCMH expects to recapture those ED patients with the construction of their new facility.

The project does not include major equipment that would meet the criteria for Certificate of Need.

TENNCARE/MEDICARE ACCESS:

UCMH participates in the TennCare MCOs available in the service area: BlueCare, UHC Community plan, and Amerigroup, as well as Medicare and Medicaid programs.

The applicant expects TennCare/Medicaid plus Medicare charges to account for approximately 66% of the UCMH year one revenue, or $6,770,484 and $28,414,708 respectively.

ECONOMIC FACTORS/FINANCIAL FEASIBILITY:
The Department of Health, Division of Policy, Planning, and Assessment have reviewed the Project Costs Chart, the Historical Data Chart, and the Projected Data Chart to determine if they are mathematically accurate and if the projections are based on the applicant's anticipated level of utilization. The location of these charts may be found in the following specific locations in the Certificate of Need Application or the Supplemental material:

Project Costs Chart: The Project Costs Chart is located on page 30 of the application with a total estimated cost of $19,999,141.

Historical Data Chart: The Historical Data Chart is located in Supplemental #1 of the application. The applicant reports 962, 720, and 500 admissions for years 2014, 2015, and 2016, with net operating incomes of ($872,312), ($6,401,090), and ($5,083,029) respectively.
Projected Data Chart: The Projected Data Chart is located in Supplemental #1 of the application. The applicant projects 605 and 593 admissions in years one and two, with net operating incomes of $(3,379,696) and $(3,548,661) respectively. The project is not expected to break even in the foreseeable future.

The applicant states that there will be no changes to the current patient charges as a result of this project. The charges currently provided at UCMH will not change as a result of the project.

Average Gross Charge per patient day: $29,843. Average deduction from operating revenue: 83% or approximately $24,350. Average Net charge: $5,052.

Funding for the project will be provided through existing MSHA cash reserves. A letter from MSHA Chief Financial Officer attests that there is sufficient cash available to fully fund the project. See Attachment C. Economic Feasibility 2 of the application.

The project is expected to be completed in August of 2018 is outlined in the Completion Forecast Chart in Supplemental #1 of the application.

CONTRIBUTION TO THE ORDERLY DEVELOPMENT OF HEALTHCARE:

The applicant believes that this project will have no negative impact on other healthcare providers, but instead, will "right-size" UCMH by reducing the bed count, replacing an outdated structure, and providing the continuation of the most needed services in a community hospital. The new facility will better serve the community and meet the long term needs and changing healthcare demands of residents. The new facility will provide the most critically needed services, while focusing on the healthcare trends of providing more outpatient based services.

Concern that the new facility bed count will be reduced from 48 to 20 beds total was explained by the applicant. In fiscal year 2016, UCMH had only 33 days in which there was an inpatient census of 10 or more. Of those 33 days, only 14 days had an inpatient census of greater than 10. According to the applicant, national predictors indicate inpatient admissions will decline, but in the event inpatient census at the new facility routinely exceeds 10, UCMH would utilize the new CON criteria and increase the bed count by 10% per year. UCMH will also transfer patients to Johnson City Medical Hospital and Franklin Woods Community Hospital as needed and when appropriate.

MSHA will utilize building models centered on evidence based designs and evidenced based medicine. These designs will include an abundance of natural light as a benefit in the healing process. The use of low impact chemicals, improved air quality and ventilation, and "Green Buildings" all serve to improve the healthcare experience and provide a long term cost benefit.

The new facility will also provide improved patient and public access, in a contemporary yet private and noise controlled environment reducing stress and improving quality of care. By reducing the overall size of the facility and implementing evidence based designs, walking distances, proximity to critical departments, work flow efficiency, and access to support services will all be greatly improved. Plans also include enhanced wireless access to records databases which promotes the efficiency of patient care, while preparing for the evolving technological healthcare industry. The design also incorporates flexibility for future expansions as healthcare needs change. By offering a new replacement facility including a primary care clinic, UCMH will be in a much better position to recruit and retain more healthcare professionals. In addition, the new location will provide better patient access and will be located less than .4 miles from Exit 40 off Interstate 26

Staffing for the facility is projected to be 97 full time employees in place for years one and two, with 71 of those employees to be involved in direct patient care.

The applicant considered the alternative option to continue operations in the present facility, but due to the significant annual repair and maintenance costs, this option is not a financially feasible option. Also, the current underutilization of the facility makes maintaining multiple unused spaces impractical. As the current trends in health care move toward more outpatient services, extensive renovations would be needed to renovate the facility. Additionally, there is not sufficient accessible land at the current location to build a new facility while maintaining operations. The renovation of the existing facility while maintaining efficient operations would be nearly impossible.

Quality Monitoring
UCMH is licensed by the Tennessee Department of Health, license # 0000000119, and is accredited by the Joint Commission, site ID# 4245.

SPECIFIC CRITERIA FOR CERTIFICATE OF NEED

The applicant responded to all relevant specific criteria for Certificate of Need as set forth in the document *Tennessee's State Health Plan.*

CONSTRUCTION, RENOVATION, EXPANSION, AND REPLACEMENT OF HEALTH CARE INSTITUTIONS

1. Any project that includes the addition of beds, services, or medical equipment will be reviewed under the standards for those specific activities.
   The project is for the replacement of an existing hospital and will not add beds or services.

2. For relocation or replacement of an existing licensed health care institution:

   a. The applicant should provide plans which include costs for both renovation and relocation, demonstrating the strengths and weaknesses of each alternative.

The option of continuing "as is" was considered but due to the age of the existing facility, built in 1953, continued repairs and maintenance are becoming increasingly significant with a repair

budget amount of $648,000 for 2017. Many potential patients from Unicoi County are opting for care in newer facilities in surrounding counties.
Also, the facility is licensed for 48 beds, of which, only 10 beds were utilized for 33 days in 2016 operating well below capacity.

The second option of building a new 20 total bed replacement hospital will "right size" the hospital and provide a state of the art, patient centered, well designed, efficiently operated facility. This option was the most practical for the applicant.

b. The applicant should demonstrate that there is an acceptable existing or projected future demand for the proposed project.

The applicant states that projections for inpatient services will continue a declining trend through 2025, while the need for outpatient services will increase. As Unicoi's elderly population continues to grow, so too will the need for a hospital in Unicoi County. The new facility will provide for the growth of outpatient services and also establish space for healthcare provider offices. The new facility will also make it easier to recruit more quality healthcare providers to the area.

3. For renovation or expansions of an existing licensed health care institution:

a. The applicant should demonstrate that there is an acceptable existing demand for the proposed project.

The project is for the replacement of an existing hospital

b. The applicant should demonstrate that the existing physical plant's condition warrants major renovation or expansion.

The project is for the replacement of an existing hospital